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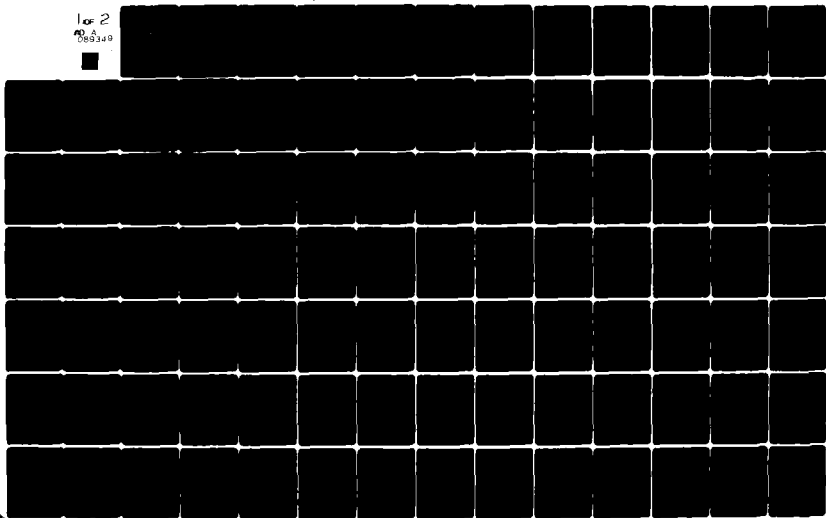
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NAVAL POSTGRADUATE SCHOOL

Monterey, California



THESIS

AN ANALYSIS OF THE
COMMERCIAL AND INDUSTRIAL TYPE
ACTIVITIES PROGRAM WITHIN THE
UNITED STATES ARMY

by

John Sherwood Everette

June 1980

Thesis Advisor:

R. A. Bobulinski

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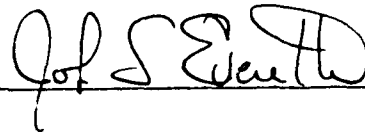
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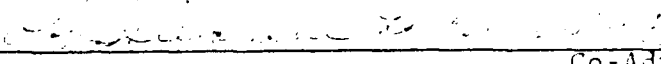
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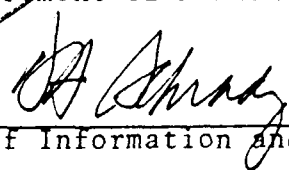
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ABSTRACT

This thesis explores the application of the Commercial and Industrial Type Activities (CITA) program to Department of the Army (DA) installations with particular emphasis on the problems associated with the attempt to implement the revised Office of Management and Budget (OMB) Circular No. A-76 in Fiscal Year 1980 (FY 80). Initial discussion covers the evolution of the CITA program and the current guidance and implementing instructions of OMB, Department of Defense (DOD), and DA. This is followed by a description of the training program for CITA management personnel. Based on discussions between the author and DA installations and Major Army Commands, an analysis of key problem areas and varying approaches to the implementation of the A-76 policy in FY 80 is presented. Fort Gordon's CITA review, which was designated by DA as a pilot study for umbrella type CITA contracts and the first DA installation to follow the procedures of the revised A-76, is described. Conclusions and recommendations are intended to assist DA installations in their attempt to complete the required 100% review of their CITA inventory by FY 84.

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I. INTRODUCTION

A. GENERAL

"In a democratic free enterprise economic system, the Government should not compete with its citizens. The private enterprise system, characterized by individual freedom and initiative, is the primary source of national economic strength. In recognition of this principle, it has been and continues to be the general policy of the government to rely on competitive private enterprise to supply the products and services it needs." (1) Upon this premise the Federal Government has developed its program for Commercial and Industrial Type Activities (CITA). With respect to the United States (US) Army, a commercial or industrial type function or activity is defined as one which is Army operated and Army managed, together with its personnel, facilities, and equipment, that provides products or services which could be obtained by contract from private, commercial sources.

Since 1954, each Federal government administration has reaffirmed the general policy of reliance on the private sector for goods and services needed by its agencies. The Office of Management and Budget (OMB), proponent of the governing regulation, OMB Circular A-76, Policies for Acquiring Commercial or Industrial Products and Services Needed by the Government, has been highly criticized for poor program implementation. In turn, OMB has blamed the departments for giving the CITA pro-

gram insufficient management attention. Although the Army has a formal CITA program to implement A-76, only a minimal number of eligible Army activities have been converted to contract.(2) This holds true for the other Federal agencies as well.

Criticism has arisen on several fronts. The government employees union, concerned over the potential loss of its members' civil service jobs if activities are converted to contract, stress that the policy as outlined in A-76 has been implemented too fast. Union leaders claim that it is not always more economical to contract and that in-house operations provide higher quality products and services. Private enterprisers argue that they can operate more effectively and less expensively than Government in-house operations, but that government agencies have been too slow in giving them the opportunity to do so. (3) The General Accounting Office (GAO) identified several factors which it felt contributed to the implementation problems. These included inadequate management systems, incomplete and inaccurate inventories of activities which were subject to A-76, and a lack of review and follow-up as required by the published policy of those CITA's which had been identified. (4)

In an effort to revitalize the contracting-out program and quiet the criticism, OMB published a revised Circular A-76 on 29 March 1979. This revised circular defines current government policy built upon three "equally valid policy precepts." (5)

- * The Government business is not to be in business. Where private sources are available, they should be looked to first to provide the commercial or industrial goods and services needed by the Government to act on the public's behalf.
- * Certain functions are inherently governmental in nature, being so intimately related to the public interest as to mandate performance by Federal employees.
- * Where private performance is feasible and no overriding factors require in-house performance, the American people deserve and expect the most economical performance and, therefore, vigorous comparisons of contract cost versus in-house costs should be used, when appropriate, to decide how the work will be done.

The Army, as well as her sister services in the Department of Defense (DOD), has been given a mandate to complete a review of all its commercial and industrial type functions by fiscal year 1985 (FY 85) in accordance with the guidelines contained in the revised A-76.

B. OBJECTIVES AND PURPOSE

An efficiently and economically managed Army installation is more important today than at any other time in recent United States history. As budgets and civilian manpower ceilings tighten, command emphasis in support of the CITA program increases. Two motivators have appeared which stimulate command attention and initiate action. First, the commanders must certify that their installations are performing their commercial and industrial activities in the most economical manner - either in-house or contracted-out. Second, and probably more important, severe reductions in civilian personnel ceil-

ings without concurrent reduction in workload lead commands to accept contracting-out as a viable, and possibly only, alternative to meet mission requirements.

Because of problems reported from the field on CITA policy and its implementation, the author decided to analyze the current regulations and directives which govern CITA reviews (OMB Circular A-76, DOD Directive 4100.15, DOD Instruction 4100.33, and Army Circular 235-1) and their impact on the Army's implementation of CITA. A CITA review is the examination of an in-house or contracted activity to determine whether the present method of performance should be continued, whether in-house functions should be scheduled for conversion to contract, or if the function should be cost compared for possible change in method of operation. More specific objectives of this thesis include the 1) identification of problems currently faced by installations in performing the CITA reviews; 2) identification of various approaches undertaken by different installations to comply with the regulations/directives; 3) identification of who is presently and who should be, in the future, involved in CITA; and 4) identify possible approaches which appear to offer the most promising long term results for success of the CITA program. The purpose of this thesis is to show the need for continuity from headquarters to the field level in regard to CITA policy and its implementation.

C. METHODOLOGY

The research methods which were employed during this study

were directed toward an objective evaluation of various Army installations' progress in the conduct of CITA reviews. Specifically, research included a literary review of policies, regulations, and reports applicable to the Army CITA program. Additionally, a myriad of telephone discussions with personnel involved in the CITA program of the following organizations provided critical insight as to the current position of the Army CITA program.

Office of Federal Procurement Policy

House Subcommittee on Human Resources

Department of Defense

Department of the Army (DA)

Army Logistic Management Center

Major Army Commands (MACOM's)

Army Installations (located throughout the continental U.S.)

Field trips were made to the Army Audit Agency (Western Region), Redwood City, California, and the Seventh Infantry Division and Fort Ord, Monterey, California. Discussion with Army auditors and personnel of Fort Ord's Directorate of Industrial Operations, who held responsibility for the CITA program, greatly assisted the author's perception of the complexity of the CITA reviews. Also, the author attended the "Management of Department of Defense Commercial Program Course" conducted at the Naval Postgraduate School by the Army Logistic Management Training Team. This course is the primary training program for all DOD services in CITA.

A model of what the policy demanded was established and then compared with problems found by the author at many DA installations. A case on CITA implementation was prepared and presented based on these problems.

D. THESIS ORGANIZATION

Chapter I of this thesis defines CITAs and presents the author's objectives, purpose, and methodology. Chapter II provides a brief history of CITA leading to the current policies as expressed in the executive branch, DOD, DA, and MACOMs. Chapter III looks at the training courses available for personnel involved in managing the CITA program, particularly insights gained from the author's attendance of the Management of DOD Commercial Program Course - the primary training course for those involved in cost comparisons. Chapter IV addresses some current problems which many Army installations are experiencing in the implementation of CITA reviews; and Chapter V presents a case which looks at one particular installation which has completed a review and cost comparison in accordance with the revised A-76. Finally, Chapter VI will present some conclusions and recommendations based on a comparison of Chapters II and III with Chapters IV and V to aid Army installations in successful implementation of the CITA policy.

II. POLICIES AND PROCEDURES

. DEVELOPMENT OF THE POLICY

The concern over Commercial and Industrial Type Activities (CITA) being performed by governmental agencies is not new to either the executive or legislative branches of the Federal government. As early as 1932, a special committee was established by the House of Representatives to probe into the government's reliance on the private sector. Several commercial and industrial activities were of particular concern. These were created to fulfill the needs of World War I which continued to exist although the war had long since ended. In 1933, the committee recommended termination of many of these activities; yet to the contrary, the government expanded many of them and established others. (6)

Following the Second World War, Congressional committees again focused on commercial and industrial activities that were carryovers from the war years. Again, the general finding of these Congressional studies was that the government was involved in many unnecessary and non-essential competitive activities and that efforts should be made to discontinue any activity which could be provided with "reasonable convenience and fair and reasonable prices" by the private sector. (7)

1. Executive Branch

In 1954, the executive branch, through President Eisenhower's budget address, brought to the attention of the

American public the Federal government's desire to rely on the private sector: "This budget marks the beginning of a movement to shift to ... private enterprise Federal activities which can be more appropriately and more efficiently carried on that way." (8)

In 1955, the Bureau of the Budget (BOB), the predecessor of the Office of Management and Budget (OMB), published Bulletin Number 55-4 which contained the first official policy statement:

"It is the general policy of the administration that the Federal Government will not start or carry on any commercial activity to provide a service or produce for its own use if such a product or service can be produced from private enterprise through ordinary business channels. Exceptions to this policy shall be made by the head of agency only where it is clearly demonstrated in each case that it is not in the public interest to procure such products or services from private enterprise." (9)

It was 1966 when the first Circular No. A-76 (A-76) was published by BOB and it represented a major change in the previous policy statements concerning contracting out. The initial policy had expressed complete reliance on the private sector to supply government needs, but now gave way to an emphasis on effectiveness and efficiency of agency programs. A-76 specifically addressed certain instances where government owned and operated activities were justified.

2. Legislative Branch

Within the legislative branch, many bills have been introduced to legislate a Federal policy concerning Government

operations which compete with private enterprise, yet none have been passed. The executive branch opposes such legislation as being unnecessary since it has already adopted a policy, and its implementation can be accomplished administratively by the President and the heads of Federal agencies.(10)

Congressional concern over the developments in Federal procurement practices increased in the late 1960's and resulted in the formation of the Commission on Government Procurement. The Commission was composed of not only members of Congress, but also representatives of the executive branch and industry, and it was tasked with recommending fundamental improvements in Federal procurement. The Commission issued its report in 1973 containing some 149 recommendations for legislative and executive branch action. In 1974 Congress, responding to the recommendations, established the Office of Federal Procurement Policy (OFPP) within the OMB.

OFPP was given responsibility for providing overall procurement policy direction for Executive agencies and authority to prescribe procurement regulations, policies, and procedures. Further, the Administrator of the Office was charged with establishing a system for collecting, developing, and disseminating procurement data which takes into account the needs of Congress, the executive branch, and the private sector. (11)

3. Recent Past

In July 1976, OMB outlined Presidential Management Initiatives to be taken by Federal agencies for evaluating

and reducing the burden of Federal regulation, reducing cost, and improving personnel management. One of these initiatives concerned actions to further the objective of maximum reliance on the private sector for commercial and industrial products and services under A-76. Two requirements were forwarded to the field. First, each agency was to provide OMB with initial plans for increasing their reliance on the private sector to carry out overhead or program functions in accordance with A-76. Specifically, this meant identifying five activities to be considered for possible conversion. Second, each agency was to review and revise their implementing instructions and procedures for contracting. This was to be done to ensure that all in-house commercial and industrial activities were reviewed and terminated if they could not be justified under the exceptions permitted by A-76. (12) Adversaries of "contracting-out" were quick to claim that the Government was resorting to a quota system rather than a systematic decisionmaking process, even though cost studies were to be performed.

The year 1977 saw the commercial industrial program brought under new light. Jimmy Carter assumed the presidency and the idea of contracting-out seemed to fit nicely into his "anti-bureaucracy, trim the fat campaign rhetoric." (13) In fact, the executive branch announced a planned comprehensive review of A-76. Because of increased emphasis on contracting-out during 1976 and 1977, the Congress expressed concern over how this policy was being implemented. Shortly after the

executive branch announcement, Congress placed a moratorium, for fiscal year 1978 (FY 78), on conversion of virtually all commercial and industrial activities if such conversion would result in a reduction of Government employees. (14)

The results of the review of the commercial and industrial policy, conducted by the OFPP, are manifested in the revised A-76 dated 29 March 1979.

B. OMB CIRCULAR NO. A-76

1. General

The decision to revise A-76 was announced on 13 June 1977 by OFPP. Emphasis was placed on public participation in the development of the revision with review and comments of draft material solicited from members of Congress, Federal agencies, and the private sector. Approximately 21 months after the review had begun, the revised A-76 was published. The revision, as viewed by Lester A. Fettig, the former Administrator of OFPP, was a complete rebuild of the whole process with the most important aspect "not to be a policy to contract-out but rather a management policy by which we decide whether the work should be done in-house or on contract." (15)

a. Purpose

The purpose of A-76 is to establish policies and procedures used to determine whether needed commercial and industrial type work should be accomplished in-house with government resources or by contract with private enterprise. Responsibility to insure compliance to the provision of the

circular has been assigned to the head of each federal agency.

Past policy had been built on only one precept: reliance on the private sector. Revised A-76 provided a new guiding principle which established a Federal policy of three equally valid precepts: (16)

(1) Rely on the Private Sector. A reconfirmation that it is the government's business not to be in business and where possible, private sources should be sought to meet governmental needs;

(2) Retain Certain Governmental Functions In-House. Those functions which are identified as governmental in nature should be performed by Federal employees;

(3) Aim for Economy; Cost Comparison. The American taxpayer has the right to economical performance, therefore, rigorous cost comparisons should be the basis for determining in-house versus contract operations for those non-governmental functions.

b. Scope

The scope of the activities, which are subject to the provisions of A-76, has been clarified by defining the term "governmental functions" in some detail. (See Appendix A-Definitions). Additionally, a representative listing of 98 commercial and industrial activities which are subject to the policy has been included. In contrast to those functions which are considered appropriate for contracting, the circular

defines when government operation of a CITA may be authorized:

(17)

(1) No Satisfactory Commercial Source Available.

A CITA can be authorized without a comparative cost analysis when one of two conditions are demonstrated and verified:

(a) There is no private source capable of providing the product or service that is needed; or

(b) Use of a private commercial source would cause an unacceptable delay or disruption of an essential agency program.

(2) National Defense

(a) A CITA may be justified when:

1) Assigned military personnel are utilized in or subject to deployment in a direct combat support role;

2) The activity is essential for training in those skills which are exclusively military in nature;

3) The activity is needed to provide appropriate work assignments for career progression or a rotation base for overseas assignment.

(b) A CITA may be justified which provides depot or intermediate level maintenance in accordance with criteria approved by the Secretary of Defense to ensure a ready and controlled source of technical competence and resources necessary to meet military contingencies. Justification of this nature will be made on a case by case basis.

(3) Higher Cost. Where the results of a comparative cost analysis indicates the Government can provide or is providing a product or service more economically than a private commercial source, then government operation of the CITA is justified.

2. Cost Comparisons

To support the increased emphasis on economy of Government and contract performance, a comprehensive Cost Comparison Handbook (CCH) was prepared as a supplement to A-76. The intended purpose of the CCH is to ensure greater accuracy and validity in cost comparisons. This had caused serious problems in implementing A-76 in the past. (Chapter III will address the training of Department of Defense personnel in the use of the CCH and problems associated with it will be addressed in Chapter IV.) A-76 sets forth some common ground rules regarding cost comparison which include: (18)

a. Both government and commercial cost figures are to be based on the same scope of work and level of performance.

b. Standard cost factors provided in the CCH will be used for government cost analysis. There is to be no variations in costing.

c. Cost comparisons are aimed at full cost, to the maximum extent possible.

d. Solicitation should provide for prepriced options or renewals for at least two years. These measures should guard against "buying-in" where a contractor seeks to gain some future advantages by pricing the initial bid below a

profitable level only to raise the price in later years after the activity has been converted to contract. Additionally, prepriced options offer other advantages to the government. They help ensure continuity of operation with only one contractor, not switching every year. Further, they can possibly encourage a lower contract price as the contractor may spread the cost of his capital assets over more than one year.

e. Activities, which fall below a \$100,000 operating threshold per year, can be contracted-out without conducting cost comparison studies.

f. The cost comparison will use a rate of 10% per annum as the opportunity cost of capital investments and of net proceeds from the potential sale of capital assets.

In regard to costing governmental operations, A-76 requires that each agency compute in-house costs on the most efficient manner of operation. A thorough management study, to ensure that the in-house work force is organized and staffed effectively and efficiently and that internal operating procedures foster efficient production and proper performance of services, is a prerequisite to developing the in-house cost estimate.

The circular, also, states that existing in-house functions will not be converted to contract performance on the basis of economy unless it will result in savings of at least 10% of the estimated government personnel cost for the period of the comparative analysis. The government recognizes that there are "some costs" attributable to turbulence and disruption of

operation which should be considered in the decision to change the means of doing business. For this same reason, a "new start," one which is brought back in-house from contract, will not be approved on the basis of economy unless it will result in savings compared to contract performance of at least equal to 10% of government personnel cost, plus 25% of the cost of ownership of equipment and facilities for the period of the comparative analysis. (19)

To ensure conformance to the instruction outlined in the CCH, A-76 requires that an independent activity review the cost comparisons. This audit process should serve not only as a means of protecting private enterprise's chance at obtaining the contract, but also, to insure that all governmental costs have been analyzed to reflect the most accurate costs to the government (using the cost factors as provided in the CCH).

3. Administering the Policy

a. In the past, responsibility for compliance with the policy had not received top management attention and results were limited. The revised A-76 addressed this problem through greater visibility in the process; agencies are now required to: (20)

(1) publish an advance schedule of all in-house activities and contracts subject to review;

(2) provide public access to all reviews and decisions; and

(3) establish a procedure for administrative review of any decision disputed by an affected party.

b. Another serious problem in the past had been inconsistent and unexpected threats to the jobs and financial security of the affected worker. These inequities were given careful consideration in the revised A-76. Provisions added to extend protection to government employees include the advance notice of reviews, "sunshine" access to reviews (which means all data is open to public scrutiny), and appeal procedures. Further, A-76 provides: (21)

(1) Displaced Government employees will receive maximum consideration for other Government positions;

(2) Government employees separated as a result of a conversion will be entitled to a right of first refusal for employment with the contractor in positions for which they are qualified;

(3) Transitions will be phased as much as possible to ease employee dislocation and facilitate placement.

c. Finally, the A-76 addresses the Set Aside Program. As expressed in the Small Business Act, the government's general policy is to ensure that small businesses, including those owned and managed by disadvantaged persons, receive a fair share of Government contracts. Consequently, contracts which have been awarded under authorized set-aside programs will not be reviewed for possible in-house performance, nor is a comparative cost analysis required for new activities which would be suitable for a set-aside program. However, in-house activities (in excess of \$100,000 annually) will not be considered for

performance under a set-aside contract except when the conversion is justified through comparative cost analysis. (22)

C. DEPARTMENT OF DEFENSE (DOD)

1. General

DOD has been a leader among Federal agencies in establishing commercial and industrial policy and instruction. In 1952, DOD published Directive No. 4000.8 expressing a policy regarding government operation of commercial and industrial functions very similar to what in 1955 BOB published as national policy. Again in 1965, DOD antedated BOB in effecting an administrative policy change. Secretary of Defense (SEC-DEF) McNamara shifted DOD's policy from one of getting out of the commercial and industrial functions to the maximum extent possible, to one of military readiness and efficiency. A year later, BOB published the first A-76 which reflected such a policy change toward efficiency and economy for all Federal agencies. (23)

A 1978 General Accounting Office (GAO) report states, "It is important to note that DOD has devoted considerably more time and resources over the years to implementing the policy (A-76) than most of the civilian agencies." (24) Also noteworthy is that DOD has been the subject of more GAO reports on implementation of A-76 than has any other Federal agency. The same 1978 report goes on to say "that many implementation problems identified in the past have not been corrected and continue to exist." (25)

2. DOD Implementation

As previously stated, responsibility for implementing A-76 is delegated to each Federal agency. SECDEF has assumed this responsibility for the DOD and current implementation guidance is provided through DOD Directive 4100.15 - Commercial and Industrial Type Activities and DOD Instruction 4100.33 - Operation of Commercial and Industrial Type Activity, dated 4 February 1980 and 25 February 1980 respectively. (A third publication which, at the time of this research, has yet to be released is DOD Handbook 4100.33H - Cost Comparison Handbook.)

Past DOD implementation of A-76 has varied. Federal unions claimed that DOD Components have placed too much emphasis on contracting out while industry has claimed that there has not been enough. Audit reports of the Armed Services have highlighted inconsistencies within each of the Component Services (Army, Air Force, and Navy). For example, there have been varying interpretations of in-house/contract criteria. One command may justify an activity for in-house operation because of no commercial source available while another command within the same geographical area has a satisfactory contract of the same type activity. Furthermore, there have been inconsistencies in cost study procedures; different cost factors and calculating methods. There were also different ways to obtain contract costs. As expressed in the Federal Register, in regards to the CITA program the revised DOD Directive 4100.15 is to provide "more definitive guidelines to ensure consistency

and equity to all parties in its implementation," and the DOD Instruction 4100.33 is to provide "detailed procedures for DOD Components in implementing the policies" of the revised Directive. (26)

a. DOD Directive 4100.15

The revised DOD Directive 4100.15 reflects the substantial changes brought about by the revision of A-76 in 1979 and basically restates the national policy as that of DOD. Additionally, it addresses those areas where it is not applicable and assigns responsibility within DOD.

(1) DOD Directive does not apply to:

(a) Government Functions, including discretionary application of Government authority, and monetary transactions and entitlements.

(b) Expert and consulting services of a purely advisory nature relating to the governmental functions of DOD Component administration and management and program management.

(c) Nonappropriated Fund Instrumentalities.

(d) Research, development, test, and evaluation activities, whose funds are required by Title 10 of the U.S. Code. (27)

(2) Responsibilities

(a) Within DOD, primary responsibility is assigned to the Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics) - (ASD(MRA&L)) for development and implementation of the CITA program. ASD(MRA&L) is also

tasked with monitoring implementation progress and conducting, in collaboration with the Assistant Secretary of Defense (Comptroller), a continuing program for improving management and cost effectiveness in the performance of DOD CITAs and contract support service functions. (28)

(b) The Secretaries of Military Departments and Directors of Defense Agencies are instructed to implement DOD Directive 4100.15 and are delegated authority to act for the SECDEF in making certain key decisions in compliance with the CITA program. Their authority to redelegate and to what level has been spelled out. Specifically, the authority to approve or disapprove new starts involving a capital investment or annual operating cost of \$500,000 or more and the authority to determine that certain CITAs are required to support national defense can be further delegated to an Assistant Service Secretary. The Commanding Officer of a major command may be redelegated the authority to approve or disapprove requests to continue, expand, or convert DOD CITAs operated by their respective commands. So from the DOD Directive 4100.15, it becomes apparent that decisions will be made at high levels.

b. DOD Instruction 4100.33

DOD Instruction 4100.33 is significant because it contains the details of "what to do" in implementing the policy outlined in A-76 and restated in DOD Directive 4100.15. Whereas A-76 related to all Federal agencies and therefore was rather broad in presenting basic concepts, DOD Instruction 4100.33

provides data which is pertinent to DOD Components. It further defines activities which are considered commercial and industrial functions and which must be reviewed in accordance with the A-76 criteria. Certain of the procedures on "what-to-do" deserve comment.

(1) Inventory

As in the past, each DOD Component is required to compile a complete inventory of all commercial and industrial type functions and update it annually. The revised DOD Instruction 4100.33 requests additional details regarding those CITAs listed and requires input in accordance with Enclosure 3 of the Instruction (punched cards or magnetic tape).

(a) For an in-house, government operation, the report will include among other things the following:

- 1) Function
- 2) In-House Civilian Workload
- 3) Military Workload
- 4) Total Cost of In-house Labor
- 5) Total Cost of In-house Supplies and

Material

- 6) Total Cost of In-house Facilities and

Equipment

- 7) Reason for In-house Operation
- 8) Most recent year In-House Operation

Approved, and

- 9) Year Scheduled for Next Review.

(b) For those activities contracted-out, the following represent some of the data required:

- 1) Private, Commercial Source
- 2) Effective Date of Award
- 3) Estimated Completion Date
- 4) Contract Work-year Equivalents
- 5) Contract Cost
- 6) Reason for Contract Operation
- 7) Most Recent Year Contract Approved
- 8) Year Contract Scheduled for Next Review
- 9) Whether It Is a Government-Owned, Contractor-Operated (GOCO) Function, and
- 10) Whether a Set Aside for Small Business or 8A. (29)

(2) Review Schedules

A review of a CITA is the examination of either an in-house or contracted-out function to determine whether the present method of performance should be continued; whether a function performed in-house should be scheduled for conversion to contract; or whether the function should be designated for a cost comparison analysis for possible change in method of performance. DOD Instruction 4100.33 specifies that a complete review, of all in-house and contract commercial and industrial activities inventoried in FY 80, shall be completed during FY 80 through FY 84. After the initial review, DOD CITAs and contracts approved for continuation are required to be reviewed at least once every five years. The requirement for waving

subsequent reviews rests with the ASD(MRA&L) and then only when the circumstances which supported the initial approval are not subject to change. (30)

(3) Review Procedures

The first step in the review process is to address the national defense requirements as discussed earlier in this chapter. DOD provides the following additional guidance: when a large number of similar CITAs exist and a small number of essential military personnel are in each CITA, management action should be initiated to consolidate the military position at a minimum number of installations so that economical in-house or contracting performance can be explored for accomplishing the workload. (31)

If the function is determined to be non-governmental, the second step is to determine the availability of a satisfactory commercial source. Explicit guidance is provided in the DOD Instruction 4100.33 as to the procedure to follow before concluding such a source is not available, and detailed documentation is required when it is determined that a private commercial source does not exist.

(4) New Starts

The Defense Audit Service criticized the guidance contained in the previous DOD Instruction 4100.33 regarding new starts as being vague and confusing. The guidance was not applied consistently among the Component Services, their installations, and even among the various CITA managers at

the same installations. (32) The revised instruction has attempted to correct some of those short-falls. A new start under \$500,000 requires approval of a senior official of the Component Service. Each Component Service has the latitude to determine who that senior official will be. However, for new starts involving \$500,000 or more capital investment or annual costs, approval must be made by the Secretary of the Military Department involved. Furthermore, the actions relating to new starts required by the Instruction "should" be completed before the Component Service's budget request is submitted to the SECDEF.

D. DEPARTMENT OF THE ARMY (DA) CIRCULAR 235-1

1. General

In recognizing the urgent need by its subordinate commands for detail guidance on implementing the revised A-76, on 1 February 1980, DA issued DA Circular 235-1 - Industrial Activities and Labor Relations Commercial/Industrial-Type Activities - ahead of DOD's implementing directive and instruction. DA Circular 235-1 superceded the DA's previous guidance contained in AR 235-5 and conforms Army policy to that expressed in A-76. The DA Circular 235-1 is the working document for Army personnel involved in the management of the CITA program. It furnishes more in-depth guidance to those involved in commercial/industrial reviews and cost comparisons than the DA has heretofore printed. It provides an insight to the administrative detail required to properly manage the CITA program.

DA officials have recognized that many of the concepts expressed in Circular 235-1 are new and that a learning experience will occur during the next few months and possibly years. The results will lead to revisions to the circular, which will increase its usefulness and value to the field.

2. Responsibilities

a. The Assistant Secretary of the Army (Installations, Logistics, and Financial Management) is designated as the CITA program director and exercises approval authority for the Secretary.

b. The Director of Management, Office of the Chief of Staff, Army holds overall managerial responsibility for the CITA program. Specific responsibilities include publishing policies and procedures, such as DA Circular 235-1, and monitoring/directing the CITA program from DA level.

c. The Comptroller of the Army (COA) assigned responsibilities are important to note; particularly, if one considers the numerous cost comparisons of in-house versus contract performance for fiscal year 1980 which are well under way. The COA is tasked to:

(1) Develop and manage a costing system to determine the actual Army costs and savings from management of the Army CITA program.

(2) Prepare an Army Cost Comparison Handbook. Specifically, the COA is to develop standard cost factors and procedures for determination of costs through the existing accounting system.

(3) Publish and supervise procedures for merging CITA budgeting actions into the normal budget cycle.

d. Major Army Commands (MACOMs) have been tasked to assure that a systematic 5-year review schedule is developed to study all CITA functions included in their command and to adhere to the schedule. Authority has been redelegated to the MACOM commanders to:

(1) Approve/disapprove requests to continue, discontinue, expand, or convert commercial or industrial functions performed by their activities and to continue or discontinue particular contracts.

(2) Approve or disapprove new starts involving a capital investment or annual operating cost of less than \$500,000.

(3) Approve initial governmental function determination.

e. The commander at each Army installation has the responsibility for running the program at the level where the "rubber meets the road". To assist the local commander, a CITA program manager and alternate are to be appointed. Publishing instructions, which establish responsibility for identifying CITA functions, controlling new starts and expansions, performing reviews, and accumulating data to be included in the CITA reports, are also the commander's responsibility. Further, initial governmental function determinations are required. The installation commander must be explicit in assigning tasks

to ensure that accurate and timely analysis is accomplished.

(33)

3. The 5-Year Action Cycle

Two 5-year action cycles are set forth in the DA Circular 235-1. One cycle is for functions currently performed in-house; the second is for functions performed by contract.

(34) These cycles are developed to correspond with the 5 year review schedule addressed earlier and serve to illustrate the need for continuous management attention to the CITA program.

4. Army Program, Budget, CITA Interface

It is a stated general policy that the CITA program should result in savings to the Army and to the Federal Government if properly administered. (35) The key term here is "properly administered." If success is to be had, the two resources of manpower and funds which are essential ingredients for each review/cost analysis, must be well managed.

In order to support the CITA program with adequate resources and to identify savings in a timely manner, the CITA program must be addressed in the Planning, Programming, and Budgeting System. DA Circular 235-1 provides broad guidance along those lines and states "Detailed instructions will be provided in Army guidance documents." (36) Special provisions have been made to accommodate changes to the budget for fiscal years 1980 and 1981, however, in future years, estimated requirements for executing the CITA program are to be identified and included in program and budget documents. For this reason,

if no other, the CITA program manager must follow the 5-year action cycle discussed previously.

5. Statement of Work (SOW)

The SOW is a prerequisite for the formal services determination by the contracting officer, the development of the in-house estimate, the development of the contracting approach, and the formulation of the solicitation package. Its design will impact the nature of solicitation, the extent of Government controls, flexibility, and the ability to measure or motivate performance by the contractor. (37) Overall responsibility for the development of the SOW is assigned to the CITA program manager. Functional managers are designated to prepare SOW's for their functional areas.

E. MACOM GUIDANCE

Current published guidance by the MACOMs can be generally classified as non-existent. What there has been has filtered out in the form of message traffic and letters. As one MACOM's CITA manager related, "We have not published anything new because we didn't know what to put out." Indeed, that has been a real problem for the MACOMs and their subordinate installations as it was not until March 1980 that DA released its implementing guidance to the field. Presently, it appears most MACOMs are involved in developing supplemental guidance to DA Circular 235-1, and this should be forthcoming later this year. Forces Command (FORSCOM) has released a "Cost Comparison Procedure

Handbook" which attempts to summarize the information furnished by OMB, DOD, and DA. (38)

Two MACOMs have made major shifts in their organization structure in regard to CITA. The Training and Doctrine Command (TRADOC) placed the CITA program directly under the control of the TRADOC Chief of Staff. FORSCOM, on 1 April 1980, transferred the CITA program to the Office of the Comptroller.

The concern and determination of MACOM Commanders is exemplified by General Shoemaker, the FORSCOM Commander, in the following quotes of messages he sent to his subordinate commanders.

"The CITA program's goal is to eliminate waste and to promote cost effectiveness with the TDA-BASOPS (Table of Distribution and Allowances-Base Operations) area. It may be used to satisfy personnel reductions without degrading readiness. It behooves each of us to work toward that goal. If it is cost effective to contract out these functions, then by all means let's do it. The saving can be utilized in other areas.

If we don't pursue other objectives, including the contract method during civilian personnel reductions, the resources (spaces and dollars) will be withdrawn anyway and the BASOPS mission will remain the same. Therefore, we need to explore all options and stay ahead of the problem. The CITA program is one of the options available to us.

... I expect each of you to become personally involved to assure that our resources are being utilized effectively and efficiently." (39)

"I am concerned with the apparent lack of emphasis on implementing the CITA program. Only five of the 17 reviews scheduled for FY 1979 have been completed. No apparent progress has been reported towards meeting

milestones for the 125 reviews scheduled for FY 80 ... We must act now to give the CITA program the impetus required to meet the FY 80 FORSCOM schedule ... I expect each commander to be personally knowledgeable of the status of his installation's CITA review." (40)

F. LEGISLATIVE BRANCH LIMITATION

1. General

As stated previously in the chapter, Congress has yet to legislate a law regarding national policy in regard to commercial and industrial activities. It has, however, been very observant of the Executive Branch's attempt to develop and implement a policy which is in the best interest of the country, or their constituents, as the situation may be. The 1980 Department of Defense Authorization Act, the 1980 Department of Defense Appropriation Act, the House Resolution 4717 - a bill sponsored by Representative Harris (Va.) - deserve comment.

2. Department of Defense Authorization Act, 1980

The DOD Authorization Act, 1980 signed into law by the President, 9 November 1979, has two sections (802 and 806) which affect implementation of A-76. Provision of Section 802 are permanent law and as such will remain in effect after FY 80 whereas Section 806 applies only to FY 80.

a. Section 802

Congressional concern over DOD's in-house capabilities in the area of research, development, test, and evaluation (RDT&E) is demonstrated in Section 802 of the 1980 DOD Authorization Act. To ensure that at least a core element is

maintained, Section 802 specifically excludes from the application of A-76, the obligation or expenditure of certain RDT&E funds authorized by 10 USC Section 138 (a) (2) (1976). (41) Not excluded, however, is the obligation or expenditure of RDT&E funds for the operation or support of installation or equipment used for research and development.

b. Section 806

Section 806 prohibits conversions of DOD commercial and industrial-type functions to contract when the purpose is to circumvent any civilian personnel ceiling. Also, the section prescribes specific notification, certification, and report requirements that must be met prior to converting any DOD in-house commercial or industrial-type activity to performance by contract. It further provides that all proposed conversions must be preceded by a study and that the initiation of such studies be preceded by notification to Congress. Further, a report must be made to Congress before a contract is awarded to a commercial source. (42) This section reflects Congress's concern that economy and efficiency are the goal of DOD, and ensures that personnel ceilings, which are established by Congress, are not ignored.

3. Department of Defense Appropriation Act, 1980

The Department of Defense Appropriation Act, 1980 in Sections 713 and 725 place restrictions on the use of appropriated funds. Section 713 prohibits the use of funds for operating or acquiring a scrap metal operation, and Section

725 prohibits fund use for the construction, replacement, or reactivation of any bakery, laundry, or dry cleaning facilities within the United States or its territories. (43)

4. House Resolution 4717

House Resolution 4717, a bill "To amend Title 5, United States Code, to provide for adjustments to Federal personnel ceilings based upon the extent that Federal functions are contracted out, to provide that performance in administering personnel ceilings and contracting-out requirements are taken into account in evaluating the performance of Federal executives and managers, and for other purposes," was introduced by Representative Herbert Harris (Va.).

This bill would require each Federal agency to report every instance to conversion to contract or return to in-house operation to OMB within 10 days, and further, would require OMB within 30 days to adjust the agency personnel ceilings based upon the number of employees required to perform the function. Mr. Harris's aim is to have something other than personnel ceiling drive decisions to contract-out and further to circumvent personnel ceilings if in-house performance is more economical.

The Executive Branch (OMB and OFPP) is opposed to HR 4717; it is convinced that A-76 can be administratively implemented throughout the Federal Government without such a law, and that the primary concern of personnel ceiling driving contracting out has already been resolved through the cost

comparison analysis required in the revised A-76.

G. SUMMARY

The revised A-76 substantially modified the thrust of the Government's policy concerning contracting out for commercial and industrial type functions. Instead of being just a directive to agencies to procure or produce needed services as it was in the past, the revised A-76 with its cost comparison handbook establishes a methodology to determine whether commercial or industrial work should be done in-house or through contract. The bottom line being economy.

The DOD and DA, have recently issued revised implementing instructions regarding A-76 and its policy. Both DOD and DA have made major improvements over their previous regulations by providing more of the necessary details to the field to insure consistency throughout commands and improved reliability on cost figures produced. The major concern now is implementation, making as few mistakes as possible while gaining experience in conducting reviews and cost comparisons. The next chapter addresses the current training being provided for DOD personnel involved in managing the CITA program.

III. DEPARTMENT OF DEFENSE (DOD) TRAINING MANAGEMENT OF COMMERCIAL/INDUSTRIAL TYPE ACTIVITIES (CITA) PROGRAM COURSE

A. GENERAL

"The handbook is so complex and detailed, you need a training program to teach people how to use it." (44) This statement was made by Hugh E. Witt, former head of the Office of Federal Procurement Policy (OFPP), in reference to Supplement 1 to OMB Circular A-76, the Cost Comparison Handbook (CCH). The DOD, recognizing the truth of Mr. Witt's statement, has undertaken the task of training both its military and civilian employees who are involved in the management of commercial and industrial programs. Currently, there are three courses being offered by DOD through the Army Logistics Management Center (ALMC), Fort Lee, Virginia. This Chapter will address one of those courses: "Management of the DOD Commercial/Industrial Type Activities Program." First, however, a word concerning the subjects of the two other courses and some observations of the author on each course.

1. Statement of Work (SOW)

In February 1980, ALMC initiated a new training course to address the preparation and development of the SOW. This one week course is specifically aimed at the functional managers of the CITAs who have been assigned responsibility in AR Circular 235-1 for writing SOW's. Functional managers are normally involved in the "how to" of their particular activities;

a major objective of the SOW course is to train them in the preparation of a SOW in terms of "what-to-do". The presentation of the first session of the course in February 1980 was met with questionable degrees of success. However, revisions were made and the second presentation (April 80) appeared to be more successful. It now provides more useful instruction on how to carry out the task of writing a SOW. Comments made to this author by some of those attending the course were quite favorable and indicated its potential value to future authors of SOW's.

2. Contracting Officer Representatives (COR's)

A course designed to train COR's (to be redesignated Quality Assurance Evaluators) has been presented by ALMC since February 1979. The course is directed toward personnel who have been or will be designated as COR's as a result of converting CITA's to a contract operation. To date, over 500 DOD personnel have received the training. The two week course is divided into three phases to introduce the prospective COR to the overall concept of contracting and his or her responsibilities as a COR. Phase I provides a brief description of the pre-award and award phases of contracting. The COR may be involved in pre-bid conferences, pre-site inspections by prospective contractors, and pre-awards surveys. Phase II introduces the performance SOW and how it should be written. This phase stresses the COR's responsibilities to insure that the requirements outlined in the SOW are being met by the contractor.

Phase III addresses contract administration and surveillance. Instruction is centered on the key responsibilities held by the COR to include how to properly monitor, evaluate and report performance by a contractor.

B. MANAGEMENT OF COMMERCIAL/INDUSTRIAL TYPE ACTIVITIES PROGRAM COURSE

The primary course, which concerns the implementation of A-76, is the "Management of Commercial/Industrial Type Activities Program Course" (MCPC) taught by ALMC. This instruction is currently being offered at its resident center, Fort Lee, Virginia and through off-site training programs at various DOD installations located throughout the United States. The MCPC is the training program to which Mr. Witt was referring in the opening paragraph of this chapter. The next few paragraphs will examine some of the key aspects of that course of instruction.

1. Course Objectives

The overall objective of MCPC is to prepare DOD personnel to conduct a satisfactory cost comparison of a commercial/industrial function. The course serves to familiarize the student with the application of certain principles to be followed and actions to be taken throughout the entire cost comparison review process and emphasizes the firm bid/offer procedure. The cost elements to be considered and the use of required or suggested costing technique are also examined and explained. The Federal Cost Comparison Handbook, Supplement 1

to OMB Circular A-76, is the basic document around which the entire training evolves. (45)

2. Target Audience

The program of instruction is designed for those individuals at the DOD Major Command and Installation level who actually perform cost comparisons of significant aspects of the review program: the planning/contracting process and the cost comparison procedures required to support in-house/contracting-out decisions. The instruction is directed at personnel in the following types of organizations: management engineering, resource management, comptroller, planning and management, manpower, and logistic support.

3. Program of Instruction

The program of instruction, which is presented over a four and one-half day time period, consists of lectures, conferences, and numerous practical exercises. Topics of discussion are divided into three sections: planning, contracting, and cost comparison. Subjects addressed in the planning section include the purpose of the commercial/industrial review, Federal policy and DOD's implementation program, requirements for cost comparisons, planning and budgeting relationships, congressional notifications and scheduling considerations. The contracting section in addition to addressing contracting procedures also briefly discusses the use and development of SOW's. Finally, the cost comparison section, to which over half the class time is devoted, focuses on the completion of

cost comparison form, specifically, estimating Government and contracting costs.

After attending the MCPC as part of the author's research for this thesis, the author believes the value of the course to key members of the cost comparison team is critical to gaining insights into the Army's bid process, some of which are not clear from just reading the published guidance and instructions. The remaining portion of this chapter will address key insights into the planning, contracting and cost comparisons which are covered in the course.

C. PLANNING

There is often a direct correlation between planning and success; a successful CITA program which implements A-76 is no exception. To aid management, AR Circular 235-1 provides a comprehensive list of activities which have been identified as CITA's, but it is not an all inclusive list. Three key words can assist management in determining whether an activity should be included in the CITA inventory: continuing, separable, contractual. If the activity is expected to continue over many years, can be separated from other functions which are being performed by the government, and is susceptible to contracting, then it is a CITA.

A-76 requires DOD to conduct a review of its complete CITA inventory between FY 80 and FY 84. A review to determine if the activity is governmental in nature. If it is determined

to be contractual, then to determine if a satisfactory commercial source is available, and finally if such a source does exist, to cost compare to determine the most economical means of operation: in-house or contract-out. Exhibits III-1, 2 & 3 depict the complete review process for existing Government Functions and existing functions under contracts.

The development of a strategy and schedule in the planning phase is considered essential if an installation hopes to successfully implement A-76.

1. Strategies

An installation may chose the method, by which it reviews and cost compares those functions listed in its CITA inventory, from five different strategies. Those choices are listed below.

a. Single Function: Looks at only one commercial/industrial activity as inventoried.

b. Group/Package: Several single functions are combined for a specific reason - one which makes "good sense" to the private sector, its normal method of operation, and to the Government, (e.g., vehicle operations and maintenance).

c. Total Base Operations: Combines most, if not all, CITAs to attract a large defense and aerospace firm.

d. Sub-function: Where it is logical and makes good sense to divide a CITA. An example would be a CITA which has a portion restricted to Governmental operation due to national defense, but which has another portion(s) which could be contracted.

The Review Process Existing Government Function Set Aside

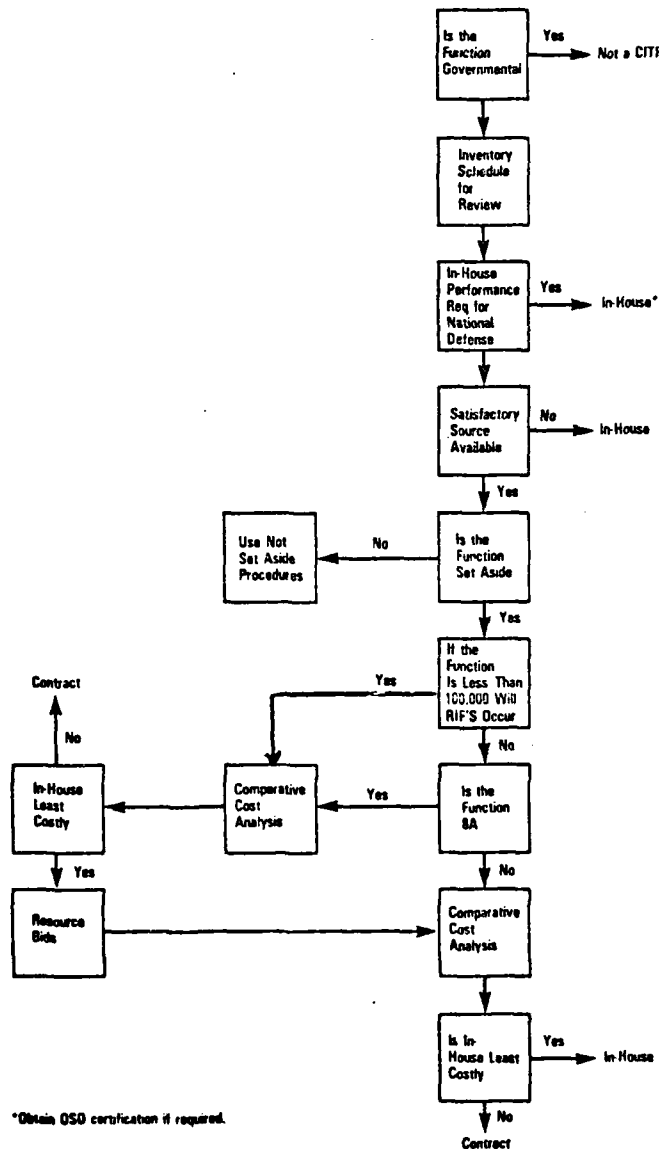


Exhibit III-1 Set Aside

The Review Process **Existing Government Function (Not Set Aside)**

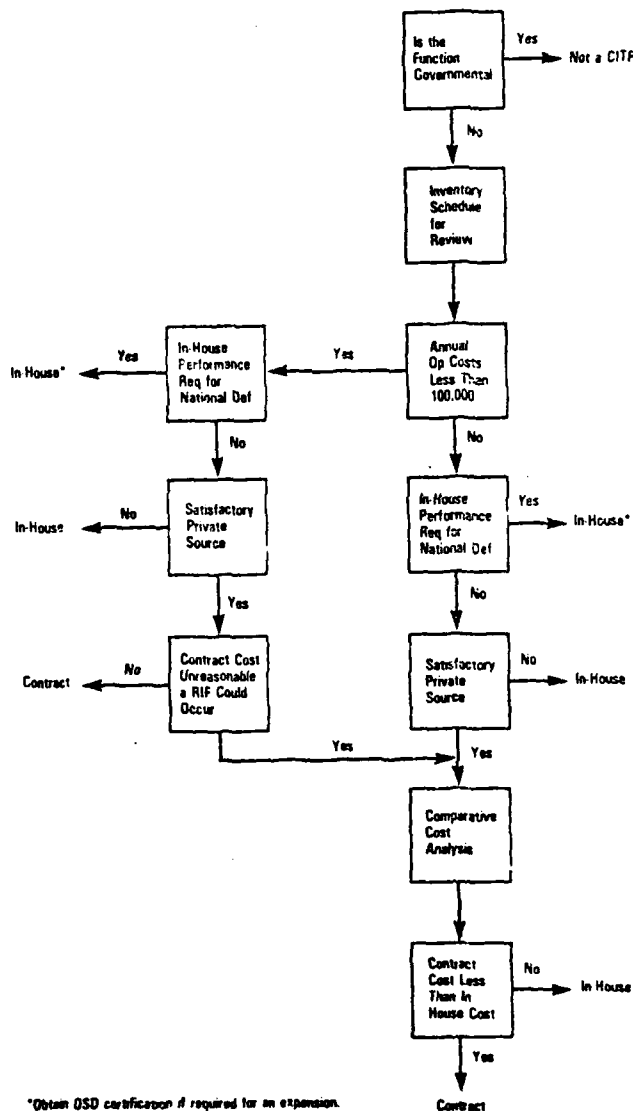
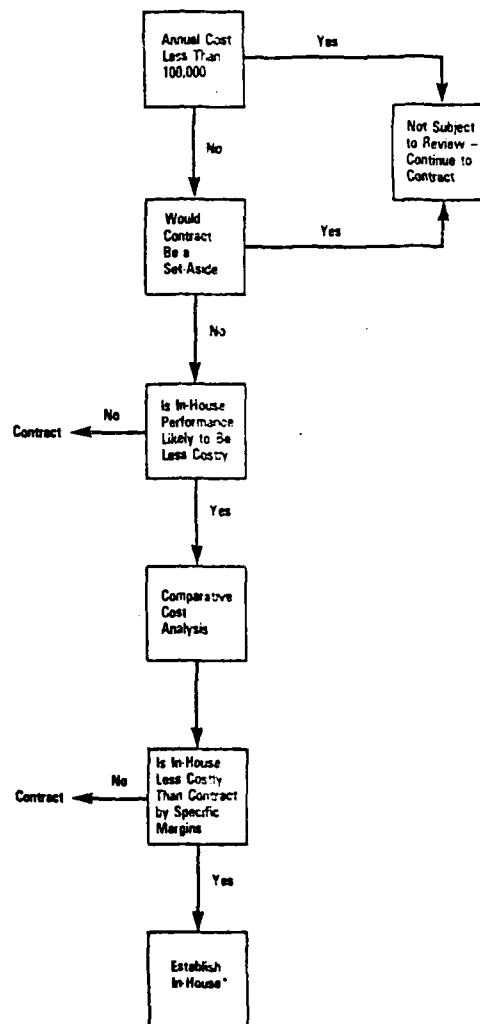


Exhibit III-2 Not Set Aside

The Review Process Existing Contracts



*Requires OSD certification for new start.

Exhibit III-3 Existing Contracts

e. Regional Grouping: Inter-service and intra-service grouping of CITAs is permissible where again it is logical and makes good sense to do so.

2. Schedule: Timing and Milestones

CITA reviews and cost comparison studies are time consuming processes. If both are required, it is generally acknowledged by instructors of the MCPC that a year to 18 months will be required for their completion.

a. Congressional Notification: Figure III-1 presents the major milestones in the review/cost comparison process and depicts the order in which they must occur. Prior to the beginning of the upcoming fiscal year, the first of three Congressional notifications must occur. This first report to Congress presents the service's review schedule for the upcoming year. The second notification to Congress announces those activities which will be cost compared during the fiscal year. That is to say, it presents a listing of those activities which have been determined to be non-governmental in nature and are thereby subject to contracting.

b. Statement of Work: The Congressional notifications must precede the development of the statement of work. As noted in Chapter II, the SOW is a key document both to the Government and potential contractors. It is a prerequisite for computing cost estimates.

c. Efficient and Economical Organization: Almost simultaneous with the beginning development of the SOW, the

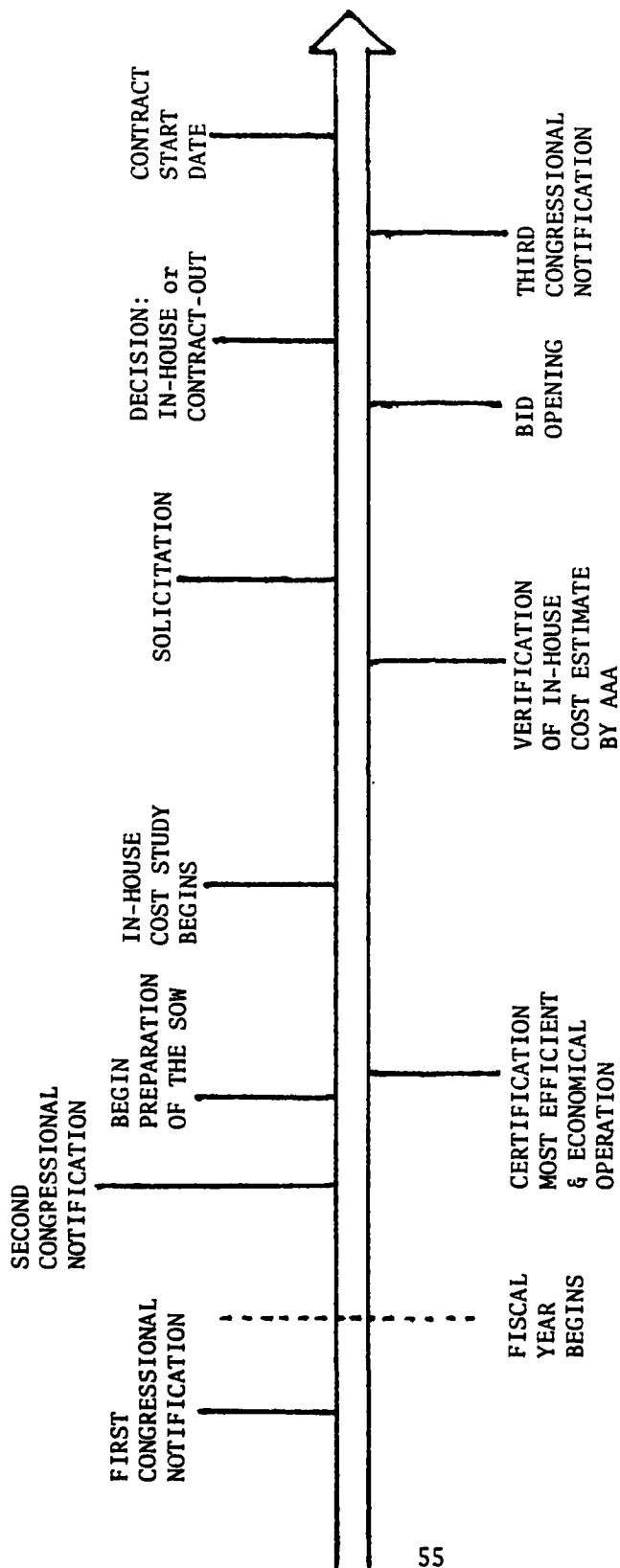


Figure III-1 MILESTONE ORDER

command must certify what is the most efficient and economical organization.

d. Begin Cost Estimate: Based upon the completed SOW, which represents the most efficient and economical organization, the Government develops a cost estimate for in-house operation.

e. Verification of In-house Cost: When completed, the Government's in-house cost estimate must be verified by the Army Audit Agency. This verification should be accomplished prior to solicitation by the procurement office.

f. Bid Opening and Decision: When bids are presented and opened for actual cost comparison, the cost comparison form must be completed and essentially two key decisions made. First, the decision as to which contractor bid is the best (depending on type of contract) and second, the decision as to whether in-house or contract performance is most economical.

g. Final Congressional Notification and Start Date: Finally, prior to the contract start date, the third Congressional notification is made. This notification, in accordance with requirements specified in Section 806 of the 1980 DOD Authorization Act, informs Congress on the result of the cost study.

If the cost comparison results in in-house operation, the installation has 30 days to start implementation of the most efficient and economical method of operation. A completion date for achieving that organization, however, has not been mandated.

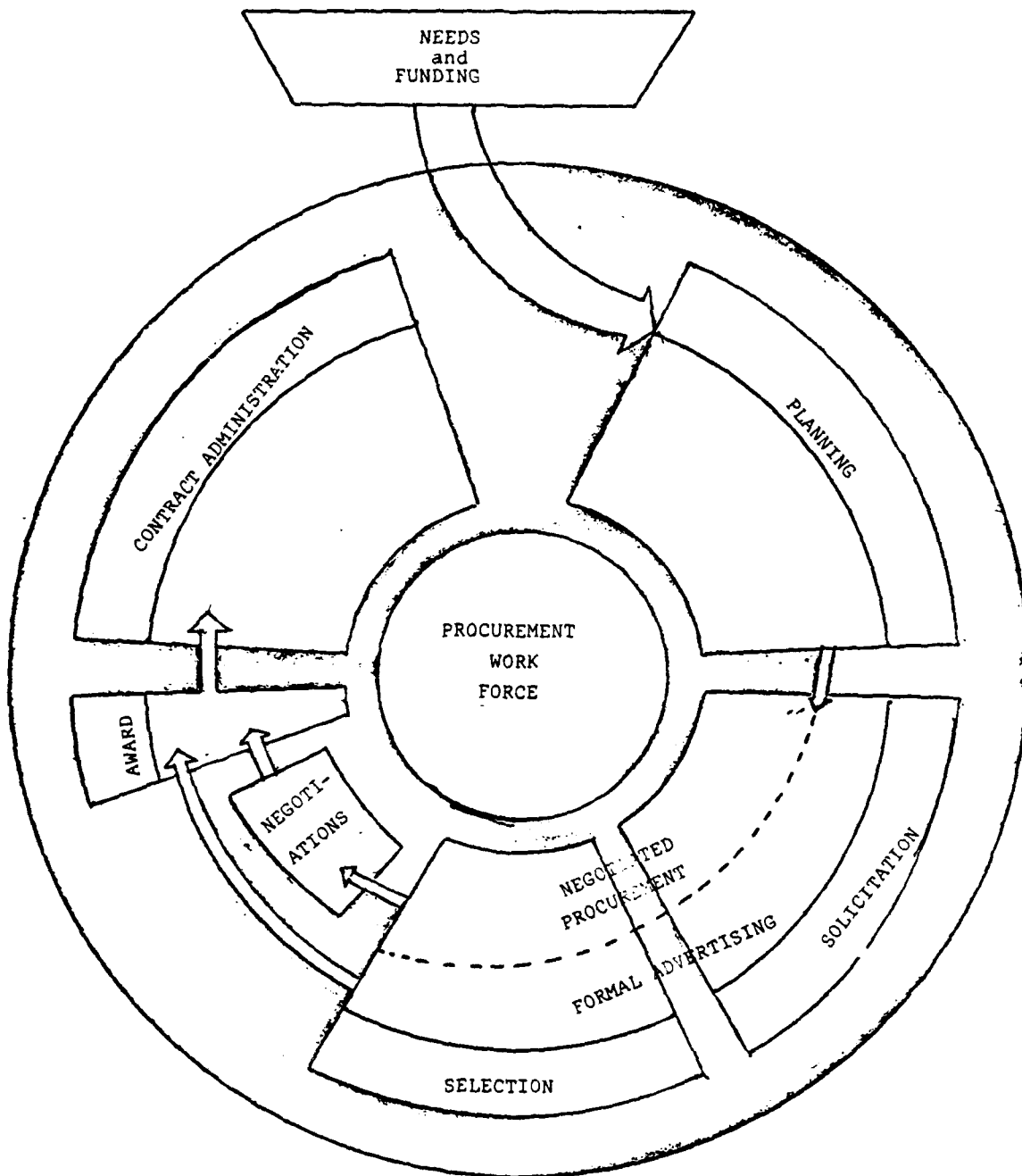
C. CONTRACTING FOR CITAs

The topic of contracting for CITAs could well be the subject of a thesis in and of itself and generally this responsibility falls outside the direct control of the CITA manager. Nonetheless, the interaction between procurement personnel and those involved in CITA management requires that at least a basic knowledge be obtained. The governing document, the Defense Acquisition Regulation (DAR), provides the guidance which procurement personnel must follow.

1. Contract Methods

Acquisition simply means acquiring, by contract, property or services. Included in the process is the determination of a particular need, solicitation, selection of sources, award of the contract, contract financing, contract performance, and contract administration. (See Figure III-2)

There are two principal methods of acquisition permitted: acquisition by formal advertising and negotiation. By law, DOD is required to formally advertise its solicitations whereby a prospective contractor submits his bid and the evaluation/selection is based primarily on price. The DAR, however, provides 17 reasons which permit DOD to use negotiated contracts and reality indicates that these represent the most prevalent way in which the Army does its business. A negotiated contract permits more flexibility. The contracting officer is able to negotiate over price and terms with the contractors, which is not permissible under the rules of formal advertising.



SOURCE: U.S. Commission on Government Procurement, Report of the Commission on Government Procurement, 5 vols. (Washington: Government Printing Office, 1972), vol., pt. A, p.2.

Figure III-2 THE PROCUREMENT PROCESS

Through discussion and bargaining with prospective contractors the government is able to obtain a "best and final offer" based not only on price but also on the amount of service to be provided. The desired end result for the government is to get the most service for the dollars available.

2. Contract Terms

The understanding of several terms commonly used in contracting may aid the CITA manager in discussions with procurement personnel:

- a. "Solicitation" is the means by which government needs are communicated to prospective contractors.
- b. "Offer" refers to a prospective contractor bid to meet the need specified in the solicitation.
- c. "Acceptance" refers to the decision by a government agency to chose a particular contractor.
- d. "Consideration" refers to the exchange that occurs between the government and the contractor - "work for money."

3. Legality

Finally, it is important to understand that the Contracting Officer's signature is the government acceptance and commits the government. Once accepted, there are two means by which a contract can then be terminated: for default or for convenience. Termination for default occurs when the contractor has failed to live up to the contract. Termination for convenience, on the other hand, does not address fault and no liability is established; it is the one most commonly used.

Figures III, 3 & 4 provide a flow chart of how the CITA review and cost analysis correspond with the Firm Bid procedure for both formally advertized and negotiated contracts.

4. Set Asides

In Chapter II, the guidance as expressed in A-76 with regard to set asides was discussed. A set aside essentially is an individual acquisition, or class of acquisitions, which are designated for exclusive participation of small business concerns. Traditionally, small business units have been recognized as a basic and indispensable element in the United States free enterprise system. The Federal Government's concern can be seen in the declared policy of Congress, to aid, counsel, assist and protect, insofar as possible, the interests of small business. Set asides are of three major types: small business, 8A, and Labor Surplus. A small business concern is one that is independently owned and operated, is not dominant in the field of operation in which it is bidding on government contracts, and qualifies under the guidelines established by the Small Business Administration (SBA) with regard to number of employees and annual receipts. 8A refers explicitly to small disadvantaged businesses, that is those owned and operated by a minority (Black, Hispanic, American Indian, etc.). Labor surplus refers to a business entity located in or near a section of concentrated unemployment or with a substantial labor surplus which has been certified by the Secretary of Labor with respect to the

CITA SECTION

PROCUREMENT SECTION

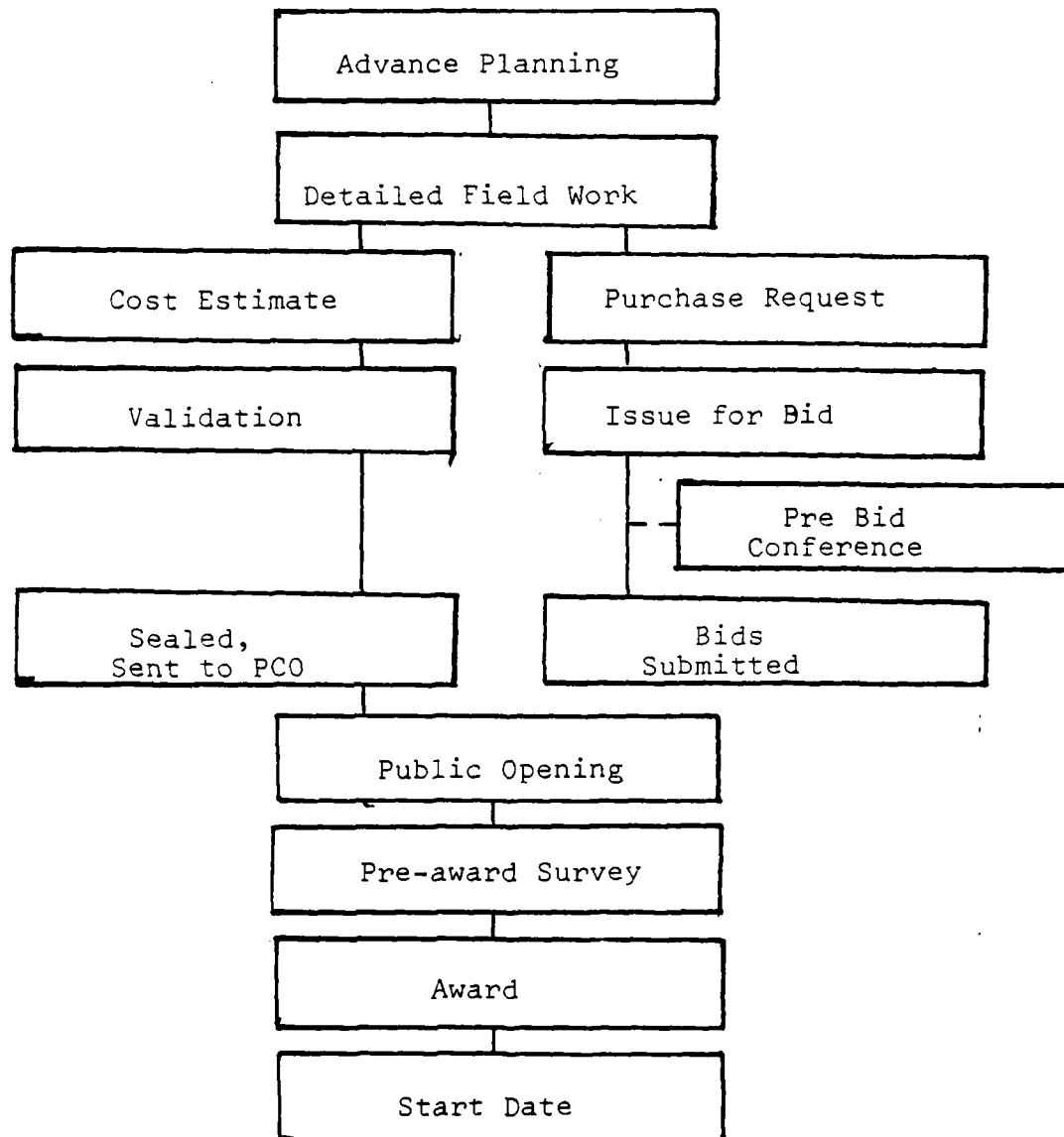


Figure III-3 Firm Bid Procedure - Formal Advertising

CITA SECTION

PROCUREMENT SECTION

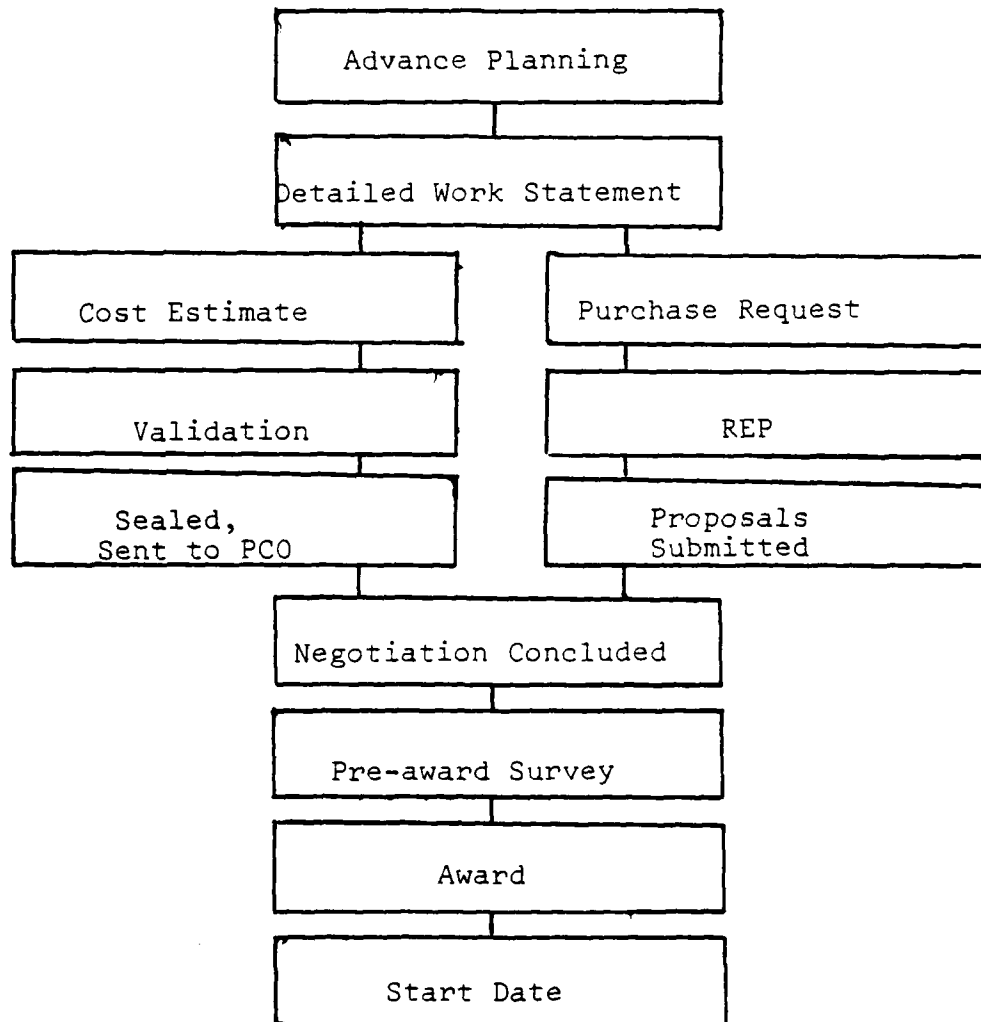


Figure III-4 Firm Bid Procedure - Negotiation

employment of disadvantaged individuals residing within such locations. CITA contracts normally concern only small business and 8A set asides.

With regard to contracting, all 8A contracts are negotiated, whereas, small business set asides may be either negotiated or formally advertised. A unique characteristic of 8A contracts is that the contracting officer enters into a contract with the SBA (another Government agency) who in turn will award the contract to a small business firm. The purpose for such a scheme is to foster and assist the establishment or growth of minority owned small business concerns so that they may become self sustaining in a reasonable period of time.

E. INSIGHT INTO THE COST COMPARISON PROCEDURE

A major objective of MCPC is to familiarize the student with the cost comparison procedures. A brief discussion of the data which goes into the Cost Comparison Form (CCF) (See Exhibit III-4) is essential to understanding the Army's computation of in-house/ contract-out cost estimates. It is upon these estimates that decisions must be made to either provide the service in-house or through contract when such a decision is based upon cost. (46) The CCF provides the decisionmakers with the summation of the cost figures upon which they must act. It is supplemented with a myriad of supporting documentation. The CCF is divided into six sections, and highlights of these sections are discussed below:

COMPARATIVE COST OF IN-HOUSE AND CONTRACTING-OUT
PERFORMANCE OF (PRODUCT/SERVICE)

LINE ITEM	COST ELEMENT	COMPARATIVE COST OF IN-HOUSE AND CONTRACTING-OUT PERFORMANCE OF (PRODUCT/SERVICE)			TOTAL	REFERENCE
		FIRST YEAR	SECOND YEAR	THIRD YEAR		
(Date)						
(Enter Amounts Rounded to Nearest Dollar)						
IN-HOUSE PERFORMANCE (CHAPTER III)						
1.	DIRECT MATERIAL					A
2.	MATERIAL OVERHEAD					B
3.	DIRECT LABOR					C
4.	FRINGE BENEFITS ON DIRECT LABOR					D
5.	OPERATIONS OVERHEAD					E
6.	OTHER DIRECT COSTS					F
7.	GENERAL AND ADMINISTRATIVE EXPENSE					G
8.	INFLATION					H
9.	TOTAL					
PERFORMANCE BY CONTRACTING OUT (CHAPTER IV)						
10.	CONTRACT PRICE					I
11.	TRANSPORTATION					J
12.	CONTRACT ADMINISTRATION					K
13.	GOVERNMENT-FURNISHED PROPERTY					L

(Not applicable)

Exhibit III-4

LINE ITEM	COST ELEMENT	FIRST YEAR	SECOND YEAR	THIRD YEAR	ADDITIONAL YEARS AS APPROPRIATE ¹	TOTAL	REFERENCE ²
14. STANDBY MAINTENANCE							M
15. OTHER COSTS							N
16. GENERAL AND ADMINISTRATIVE EXPENSE							O
17. TOTAL							

NOTES

1. If more than 4 years are involved, use another form to detail the annual cost of each year and enter the total here.
2. Attach supporting documentation as prescribed for each element of cost for which an entry is made and identify it with the established reference. Pages should be separately numbered with the prescribed alphabetic reference and in numbered sequence; e.g., A-1, A-2, A-3. The entry in this column should indicate the total number of pages submitted; e.g., A-14 means reference "A" consists of 14 pages.

OTHER CONSIDERATIONS (CHAPTER V)

ADDITIONS AND (DEDUCTIONS) TO IN-HOUSE PERFORMANCE

ADD:

18. COST OF CAPITAL	P
19. ONE-TIME NEW-START COSTS	Q
20. OTHER COSTS	R
DEDUCT:	
21. OTHER COSTS	S
22. TOTAL	

Exhibit III-4 (Con't)

LINE ITEM	COST ELEMENT	FIRST YEAR	SECOND YEAR	THIRD YEAR	ADDITIONAL YEARS AS APPROPRIATE ¹	TOTAL	REFERENCE ²
<u>ADDITIONS AND (DEDUCTIONS) TO CONTRACTING-OUT PERFORMANCE</u>							
	ADD:						
23.	COST OF CAPITAL ON GOVERNMENT-FURNISHED FACILITIES	() () () () () ()					T
24.	UTILIZATION OF GOVERNMENT CAPACITY	() () () () () ()					U
25.	ONE-TIME CONVERSION COSTS	() () () () () ()					V
26.	OTHER COSTS	() () () () () ()					W
	DEDUCT:						
27.	FEDERAL INCOME TAXES	() () () () () ()					X
28.	NET PROCEEDS FROM DISPOSAL OF ASSETS (ANNUAL VALUE)	() () () () () ()					Y
29.	OTHER COSTS	() () () () () ()					Z
30.	TOTAL						
<u>MINIMUM COST DIFFERENTIAL (CHAPTER VI)</u>							
31.	NEW-START						AA
32.	CONVERSION						BB
	SUMMARY						
33.	ADJUSTED COST OF IN-HOUSE PERFORMANCE (LINE 9 + LINE 22 + 31)						
34.	ADJUSTED COST OF CONTRACTING-OUT PERFORMANCE (LINE 17 + LINE 30 + 32)						

LINE ITEM COST ELEMENT FIRST YEAR SECOND YEAR THIRD YEAR ADDITIONAL YEARS AS APPROPRIATE¹ TOTAL REFERENCE²

35. COST OF IN-HOUSE (UNDER) COST OF CONTRACTING-OUT PERFORMANCE (LINES 33 and LINE 34)

IN-HOUSE ESTIMATE PREPARED BY

(NAME) (DATE)
(TITLE) (TELEPHONE)

APPROVED BY:

(NAME) (DATE)
(TITLE) (TELEPHONE)

COST COMPARISON PREPARED BY:

(NAME) (DATE)
(TITLE) (TELEPHONE)

AUDIT OPINION

We have reviewed the above form and substantiate the currency, reasonableness, completeness, of the data entries made prior to bid opening. We further substantiate that those entries are in compliance with OMB Circular A-76, the related cost comparison handbook, and other applicable guidance with the exception, if any, of those highlighted in the attached United States Army Audit Agency Report.

(NAME) (DATE)
(TITLE) (TELEPHONE)

Exhibit III-4 (Con't)

INSTALLATION/ACTIVITY VERIFICATION

I have reviewed the entries and mathematical calculations made subsequent to the opening of contractor proposals or bids (lines 10, 12, 16, 17, 27, 30, 34, and 35) and verify their correctness. I further verify that those entries and calculations have been made according to the procedures in OMR Circular A-76, related cost comparison handbook, and DOD and Army supplements.

PERFORMANCE RECOMMENDATION (IN-HOUSE OR CONTRACT) APPROVED BY:

_____ (NAME)	_____ (DATE)
_____ (TITLE)	_____ (TELEPHONE)

Exhibit III-4 (Con't)

1. In-House Performance

The revised A-76 represents a major change in the costing method of in-house performance. Incremental costing is replaced by full costing, a method which includes all direct costs pertaining to the function plus a "fair share" of the total indirect costs. Full costing attempts to recognize the true cost of products and services when they are furnished by the Government. To compute in-house costs, consideration must be given to direct and indirect costs, fringe benefits, and inflation.

a. Direct Costs: The identification of direct costs would appear to be a rather simple task, however, most Army installations have not been accustomed to accumulating cost by function or activity. Direct labor, direct material, and other direct costs which are applicable only to the function under study must be collected. The most efficient organization, which satisfies the requirements established in the SOW, must be costed. This organization is not necessarily the one currently in operation.

Included in direct materials are some materials purchased from other Governmental or DOD agencies. When materials are purchased from such agencies, (e.g., General Services Administration and the Defense Logistic Agency) they do not reflect full cost and therefore must be adjusted in accordance with those factors contained in the Cost Comparison Handbook (CCH).

Direct labor is to be based on the most efficient Table of Distribution and Allowances (TDA). This TDA should reflect only civilian spaces as military spaces are to be excluded from commercial/industrial operations.

b. Indirect Costs: Computation of indirect costs requires the development of three cost pools: the Material Overhead Pool, Operation Overhead Pool, and the General and Administrative (G&A) Expense Pool. A two step process occurs. First, the total cost of each pool is calculated; and second, a fair share of that total is apportioned to the activity under study. It is in this area of indirect cost that insight is most deficient and published guidance vague. A synopsis of these cost pools follows:

(1) The Material Overhead Pool consists of those costs associated with acquiring, handling, and controlling material which is not directly traceable to a specific activity. Areas where these costs are most likely to be identified are in the organization's supply element; a portion of procurement and a portion of transportation.

(2) Operation overhead costs are the indirect costs incurred by an organizational element, called a "work center," that produces one or more services or products with at least one of the services or products being the function for which costs are being estimated. (47) This necessitates that a "work center" be defined. The important question becomes, "How far up in an organization must one go to capture all costs

pertinent to the supervision of the activity under study?" A "general rule," which the MCPC instructors express, is one supervisory level above the function being costed. However, if justification can be made for some other level with concurrence from Army Audit Agency (AAA), then that level may be designated as the work center. "Reasonableness" still is the bottom line.

(3) G & A expenses are those which are incurred for the benefit of the entire organization. These costs are to be accumulated at the level of "self-sufficiency", a level where an organization can function without outside assistance. For the Army, this normally will be installation level since most are self-sufficient except for funding and policy guidance.

c. Fringe Benefits: Fringe benefits include allowances and services provided by the government to its employees as a compensation, in addition, to basic wages and salaries. These must be computed for both direct and indirect labor. The current rates applied to civilian labor are:

Retirement and disability	20.4%
Health and Life Insurance	3.7%
Other benefits (disability, unemployment, etc.)	1.9%

For military personnel, which are costed as part of indirect labor cost, the rates are:

Military Retirement	26.5%
Officers	8 %
Enlisted	23 %

d. Inflation: A current rate of 4% is applied to the Government's cost estimates of its second and subsequent years

of a multiyear cost comparison. With the current inflationary trend, it appears government costs may be substantially underestimated. Care must also be taken with regard to the three overhead pools addressed previously. These pools include depreciation which is not subject to inflation and therefore, a fair share must be backed out of their totals prior to applying the inflation factor.

e. Total In-House Performance: The sum of these four cost elements - direct cost, indirect cost, fringe benefits, and inflation - provide what may be considered as the government's bid for the CITA. It is this total sum, with its supporting documentation, to which the AAA must give its blessing. Every assumption and calculation must be justified.

2. Performance by Contracting-Out

The second section of the CCF provides the cost to the Government if a decision to contract out is made. In addition to the contract price of the bidder chosen, other costs which would be incurred by the Government must be considered. Examples of such costs are discussed below:

a. Transportation: If the SOW specifies that the government will provide transportation services whether in-house or contract performance occurs, then the cost to the government for that service must be reflected on the CCF.

b. Contract administration: Contract administration includes the costs incurred by the Government to insure that the contract is faithfully executed by both the Government

and the contractor. OMB has established a standard rate of 4% to be applied to the contract price.

c. Government Furnished Property: The cost of materials and supplies as well as facilities and equipment furnished in accordance with the SOW for contractor use in providing the product or service must be added to the contract price.

d. Stand-by costs: The maintenance cost necessary to keep property in an efficient operating condition so that it will be available for possible use in case of nonperformance by the contractor are considered stand-by costs. These are applicable in unusual and infrequent instances. When they do occur, then they too will be added to the contract price.

e. G & A Expenses: The G & A expense applicable to the in-house effort related to contracting for service must be included as part of the cost of contracting out. The amount of such expenses to be included is determined by applying the G & A rate, developed in the in-house portion of the CCF, to the total costs of the in-house effort.

3. Addition and (Deductions) to In-House Performance

In-house performance must be adjusted to reflect cost of capital and one time new-start costs, if they exist. The former is an imputed cost, not an outlay of funds, and represents an opportunity cost for the government's money tied up in capital assets.

One time new-start costs include training, transportation and installation. Any cost which occurs only once and is the result of a "new-start" where the function is brought from

contract to in-house operation, must be used to adjust in-house cost. The total for the new-start cost is to be spread evenly over the next five years.

4. Addition and (Deduction) to Contracting-Out Performance

Adjustments also must be made to the cost bid submitted by the perspective contractor. These adjustments are needed to reflect inflows and outflows to the government if the service is provided by a contractor. The cost of capital on government furnished facilities is computed for the same reason addressed above. One time conversion costs, the counter-part to new-start costs, are to reflect the one-time costs incurred by the government to shift operations from in-house to contract. Another addition concerns the utilization of government capacity. Where the decision to contract out will result in the work center operating at less than its present level of utilization, the costs attributable to this underutilized capacity must be determined and the additional amount of overhead which must be absorbed by the remaining activities is considered a cost of contracting-out.

The potential Federal Income Tax revenues which would be paid by the contractor are deducted from contracting-out costs. A tax table is provided in the CCH for calculating those amounts.

5. Minimum Costs Differentials

The government has recognized that (if there are shifts of operations from in-house to contract, or vice-versa) there

is an inherent cost which must be considered. These costs include the possible loss of production, the temporary decrease in effectiveness and efficiency, and other unpredictable risk that results from a change in the method of operation. Adjustments to the in-house or contractor bid, depending on the current means of operation, must be made.

In the case of a conversion (from in-house to contract) a cost margin equal to 10% of the in-house personnel related costs must be added to the cost of contracting out. On the other hand, where the possibility for a new start exists, a cost margin equal to 10% of the estimated government personnel costs plus 25% of the estimated cost of capital, which would be required to operate in-house performance, must be added to the in-house bid. Basically, the Government has decided that a change in the method of operation will not be made solely on cost unless a "substantial difference" is predicted.

6. Summary

The summary, final section of the CCF, simply totals the costs associated with in-house performance and those of contracting-out performance, which have appeared on the CCF. It provides the decision maker with the bottom line as to which method of operation is the most economical. In accordance with the policy guidance of A-76, the taxpayer deserves and expects economy, the lowest of the two cost figures represents the future method of performance.

F. SUMMARY

This chapter has identified the training programs associated with the CITA program. The MCPC has been and continues to be the major training course for DOD personnel involved in conducting cost comparisons required by A-76. The training offered by ALMC is designed to assist installation managers to successfully implement A-76. To achieve success, a plan of attack must be formulated and a schedule of milestones followed.

CITA managers must recognize that they cannot operate in isolation from other activities on their installation. This is particularly true with regard to the procurement section. The role of the contracting officer is extremely important and the timing of interactions between them and the CITA managers becomes essential. It is important that the CITA manager have some understanding of the procurement process.

Finally, the in-house cost estimate which may be considered the Army's bid for the contract, must reflect the full cost of the activity incurred by the government. The computations leading to the in-house bid must be verified and validated by an independent audit. The preparation of in-house cost estimates is a detailed and time consuming process. In addition to the in-house cost estimate, the CCF must be completed in such a manner to reflect total cost incurred by the government if the activity is performed under contract. The desired results of the cost comparison being a determination of which is more economical, in-house or contract performance. Train-

ing is viewed as essential if A-76 is to be successfully implemented and DA is to meet its FY 84 deadline to review all functions listed in its CITA inventory. The following chapter will address some of the current problems which installations face as they attempt to implement A-76 as delineated in the past two chapters.

IV. ANALYSIS OF CURRENT IMPLEMENTATION PROBLEMS

A. GENERAL

The purpose of this chapter is to discuss problems which have been and continue to be encountered by Army installations in their attempt to implement the revised A-76 policy. As previously discussed, the Department of the Army (DA) is to review all Commercial and Industrial Type Activities (CITA) during the Fiscal Year 1980 (FY 80) to FY 84 time frame. The previous chapters have outlined the policy and training which affects DA implementation of the CITA program. Discussion will now shift to some of the difficulties being experienced by DA installations. This chapter will provide some insights as to why the CITA program is not progressing on schedule as evidenced by Army Audit Agency (AAA), Defense Audit Service (DAS), and General Accounting Office (GAO) reports on the subject. (48)

The information upon which this chapter is based was obtained from the analysis of the implementing guidance, audit agency reports, and, more importantly, from telephone interviews and discussions between the author and personnel involved in the implementation of the CITA program at numerous Army installations, Major Army Commands (MACOMs), DA, the AAA, Office of Federal Procurement Policy (OFPP) and Congressional committees. Appendix B provides a list of activities and commands which provided information. Much of the information

is proprietary in nature and reference to specific installations will not normally be made. Opinions reflected in the following sections are results of the interview process.

B. PROBLEMS IDENTIFIED

The problems identified in the author's research interviews appear to have been experienced by almost every Army installation. They are problems which directly impact the ongoing implementation efforts of A-76. The order in which the problem areas are discussed below is not significant. What is significant, however; is that these problems often arise in combination, sometimes simultaneously, which in turn has a negative impact on the CITA manager's implementation effort. This fact is pointed out here so that the reader does not treat each area in isolation.

The implementation of the revised CITA program has been viewed by many top Army officials with the typical "can do" spirit with which they accept other missions and assignments. However, the bureaucratic process through which the CITA reviews must proceed and the complexity of the CITA program have only recently been recognized. The CITA program is only one of many programs and missions competing for a commander's time; yet it is one which must gain more attention because it has a direct impact on resources, manpower and dollars, which are essential to accomplishing the base operation mission.

In an effort to identify current problem areas, the author initially made contact with personnel assigned to CITA manage-

ment positions at DA, Army Logistic Management Center (ALMC), three MACOMs, and three DA installations. From a consensus of information drawn from these interviews, a core of current problem areas was identified. (Enclosure IV-1) This core of problems served as a basis for discussion in interviews with other DA installations and follow-up interviews with those commands initially contacted. No statistical inference could be drawn from the interviews, yet discussions with 26 major activities and commands, members of the Executive Branch, and Congressional staff members indicate these problem areas are widespread throughout the Army and are applicable for discussion and consideration.

1. Planning

As noted in the previous chapter, planning is an essential ingredient for completing CITA reviews within the scheduled time. During FY 78, a Congressional ordered moratorium was applied to all DOD CITA programs, excluding real property maintenance and repair. A major change occurred during that period; the revised A-76 was issued on 29 March 1979 which presented not only a new policy but more importantly, a new cost comparison procedure. The 1979 Appropriation Act signed by the President on 13 October 1978 contained no contracting restraints and freed DA to pursue anew its CITA program.

To comply with the provision of A-76, DA was required to submit a five year review schedule for the functions to be evaluated under the CITA program. DA chose to continue a

decentralized approach to implementation. Each MACOM and essentially each installation was given the opportunity to establish its own review schedule. The general guidance to the installation was that a minimum of 15% of all functions will be included in each review schedule for the FY 81-85 time period with 100% of all CITAs reviewed during the period FY 80-85.

(49) The revised A-76 was to be the guiding document until the Department of Defense (DOD) and DA guidance was published.

a. No Published Guidance

A primary problem of the MACOMs and the installations in their planning effort has been the lack of published guidance. As stated, A-76 was published in March 1979, however, it was not until February 1980 that DA and DOD published their implementing instructions. By this point in time, installations were well engrossed into their cost comparison studies. The old cliché of "having the cart before the horse" was soon recognized as a truism with respect to the renewed CITA implementation effort. DA attempted to keep the field abreast of its implementation guidelines through command letters and messages. The field representatives interviewed perceived the guidance to be both conflicting and confusing. There were changes being made at a time when the program was supposed to be functioning.

The lack of published guidance by DA was compounded by the lack of any published instruction from the MACOMs. Each installation was being driven to accomplish cost comparisons

now, and each installation essentially interpreted A-76 and the Cost Comparison Handbook (CCH) in their own manner. An Army auditor best summed up the thoughts of many when he stated that "installations have insufficient time to learn proper, workable approaches to CITA implementation."

b. No Standard Approach

Another planning shortfall was that the FY 80 review schedule was not based on any standard. There appeared to be no rhyme or reason as to why activities picked for review were chosen except that they were definitely non-governmental in nature. Installations in FY 80 have generally not been performing CITA reviews but simply cost comparisons. As a former MACOM CITA director related to the author, "there has been no set standard for implementation, if some standard had existed it might have led to some degree of competition between the different Army posts and possibly a more active pursuit of the implementation effort."

Since installations were concerned primarily with cost comparison studies, several failed to identify functions that contained Space Imbalance Military Occupational Specialties (SIMOS) and rotation base spaces. These spaces, filled by military personnel, are required to meet DA training requirements. (50) Such training spaces are present in every MACOM and once the particular SIMOS is identified, the appropriate MACOM can take action to consolidate those spaces at designated installations. In the event that no installation can be found

for relocation, a cost comparison study should not be made. This problem is complicated by normal military personnel rotations. Personnel continue to depart and arrive at activities which may be converted to contract in the short term. For the arriving personnel it may mean another permanent change of station (PCS) move in the near future at an additional cost to DA and unnecessary hardship to the soldier and his family. This problem highlights the interviewees' comments on the need for conducting a complete CITA review, not just a cost comparison, and taking appropriate and timely action in regard to planning military personnel arrivals and departures with CITA activities in mind.

2. Personnel Ceilings

Federal employment is controlled primarily through personnel ceilings which the Office of Management and Budget (OMB) establishes for each Federal agency. Since FY 75, Congress has established civilian personnel ceilings for the DOD. A-76 explicitly prohibits the use of the CITA program to circumvent the imposed personnel ceiling. DA Circular 235-1 states:

"This Circular will not be used to justify a conversion to contract solely to meet personnel ceilings or to avoid salary limitations. When in-house performance of a new start or expansion is justified under this circular, but cannot be done within current personnel ceilings of the reviewing activity, a request for necessary adjustments will be forwarded in connection with the annual program and budget review process." (51)

a. Views on the Use of Personnel Ceilings

Prior to looking at personnel ceilings as they

impact on the CITA program, some brief concepts of personnel ceilings may prove worthwhile. General Rogers, as the then Army Chief of Staff testifying to the House Defense Appropriations Subcommittee, pointed out the major challenge that personnel ceilings place on the Army and the undesirable alternatives required to comply with them. He identified only four alternatives with which the Army can respond when confronted with personnel ceiling limits which will not allow planned work to be accomplished. One, the function can be reduced; two, close installations; three, contract out; or fourth, use borrowed military manpower using soldiers to do jobs that civilian employees should be doing. (52)

Elmer B. Staats, the Comptroller General of the United States, in testimony before the Subcommittee on Human Resources, provides the following comments on personnel ceiling.

If, because of personnel ceilings, agencies cannot directly hire enough people to accomplish their approved programs and activities, they must work the employees they have overtime and/or obtain the services of additional people indirectly through contracts with private firms ...

The President and the Congress are concerned about the effective, efficient, and economical use of the Federal work force, but they lack assurance that the agencies would effectively control employment levels if they were not constrained by personnel ceilings. Resources need to be controlled. However, controlling only one element of the total manpower resources used involves the risk of distorting management's decisions. Emphasis on managing direct employment through personnel ceilings, which apply to the last day of the fiscal year, rather than to the total manpower resources used gives only the appearance of control. ... ceilings are at best an inferior substitute for effective management. (53)

A senior official with the OFPP expressed the following view to the author. He related that while personnel ceilings may be a poor means of management control, they are a political necessity. No administration or Congress wants to give the impression of enlarging the government.

b. As a Motivator to Implementation of A-76

Installation level personnel interviewed stated that they are being driven to implement A-76 by reductions in their end of year personnel ceilings. Whether intentionally or not, the use of year end personnel strength has provided DA with a catalyst to motivate CITA program implementation.

In FY 80, DA policy has been to withdraw all personnel spaces from CITAs scheduled for review. Each installation's year-end personnel strength is automatically reduced by the number of employees whose jobs are subject to be converted to contract at the completion of the cost comparison study. In the event a reviewed function is found to be more efficient and cost effective, in-house, the "MACOM will make every effort to restore (personnel) allocations which have been withdrawn for that function." (54)

The use of personnel ceilings in this manner by DA has resulted in two problem areas. First, there is the problem of time. In order to achieve the required reductions through the CITA program during FY 80, all activities must be reviewed through the contract opening stage not later than 30 June 1980. This would provide three months to accomplish

the major remaining steps in the review process. These steps include the decision to contract-out or remain in-house, and, if the decision is to contract, to provide the Civilian Personnel Office (CPO) sufficient lead time to prepare and issue reduction-in-force (RIF) notices at least 60 days prior to termination as required by law. It would also allow sufficient time for the third Congressional Notification required by Section 806 of the 1980 Authorization Act as to which decision, in-house or contract-out, was made. Discussions between the author and 24 CITA managers indicate that at least 22 installations will probably not meet that suspense date.

The second problem area concerns those activities where in-house operations have been deemed to be more cost effective. The MACOMs have been unsuccessful at recouping from DA those spaces withdrawn at the time of the review schedule announcement. One example of such a problem can be seen at Fort Huachuca, Arizona. A CITA review of the laundry and guard service for the installation (reviewed under the provision of the former A-76) was begun in FY 79. The personnel spaces associated with those activities were among the 152 civilian personnel ceiling reduction for FY 80 affecting the post manning strength. The cost comparison results showed continued in-house operation to be more cost effective; however, it is extremely doubtful whether these spaces will be re-allocated to the post. (55) The MACOM or the installation will be forced to shift manpower resources from some other

area to cover the spaces which have been lost. Fort Bliss, Texas, provides another example. There, too, the laundry operation remained in-house, however, the spaces for its operation have not been returned.

Most installations expect that personnel ceilings will continue to plague their operations with or without the CITA program. The recent trend by the Executive and Legislative Branches to reduce the size of the Federal government has already led to many CITAs being staffed below the required manpower levels needed to accomplish assigned tasks. The impact of reducing the personnel ceiling once a CITA is scheduled for review results in an even further deterioration of authorized personnel strengths. If the CITA review decision is to contract-out, installations may be aided in meeting the imposed personnel reductions without sacrificing readiness. However, in FY 80, the CITA review program impacts negatively on personnel strengths. It does so by adding to the normal year-end reduction of personnel spaces the additional manpower spaces associated with the CITAs scheduled for review during that fiscal year. This is done without much hope of recovering those CITA spaces from DA even if the decision is to remain in-house.

3. Attitudes and Beliefs

The attitudes and beliefs of personnel involved with the CITA program differ as to where they fit into the system. For example, at the MACOM level the belief of those individuals

interviewed is that DOD has "contract ideas," that is ideas of what they desire to see contracted, for a model Army, whereas installations perceive DA to be prejudging what can or should be contracted-out, manipulating the outcome with the use of personnel spaces. Regardless of one's position within the system, the aggressiveness to which implementation of A-76 occurs depends greatly on the attitudes of those involved in a CITA, from the commanding general of the installation to the mechanic's helper whose job is subject to be converted to contract.

a. From the Top

Interviews with CITA managers revealed that at the top levels there is an economics versus readiness debate which some commanders and staffs have yet to resolve. Some commanders are of the opinion that their military success and promotions have been directly related to their ability to maintain a ready force, and therefore, readiness is the commander's top priority. In this regard, a MACOM CITA manager expressed that an engrained belief has come to exist among many commanders and their staffs that in-house operations, with government employees, provides them with more control over resources which they need to maintain their installation's readiness capabilities. Interviews with installation CITA personnel substantiates this belief is widespread and impacts directly on the amount of support commanders are willing to give to the CITA program.

A difficulty also arises in getting top civilian

and military managers to think as entrepreneurs. In private enterprise, profit is the guiding factor which determines success or failure. In the public realm, profit per se does not exist. Managers of the military often fail to look at all costs particularly with regard to personnel costs. Attention must be given to military labor which may be either directly assigned to a CITA or used as borrowed labor, often on loan from a tactical unit. While military pay is not directly reflected in the installation's budget, a failure to recognize this labor, which is a cost to DA, sometimes makes in-house performance appear less costly than it really is.

Commanders and senior staff members also influence the CITA review schedule. As with any program, managers at all levels have certain "pet projects" over which they desire to continue direct control for one reason or another. CITA review schedules often depict personnel preferences of installations' commanders and staffs in regard to which CITAs will be left last for review.

b. Unpopular

Another prevailing attitude encountered by the author was that few people want the CITA job and responsibility. Those CITA managers who actively pursue implementation were often viewed by their peers as being traitors or someone trying to put them and other government employees out of their jobs. Some common phrases heard by the author which reflect the beliefs and attitudes of many CITA representatives and

functional managers, whose functions have been or will be considered for conversion, are listed below:

- 1) My friends will lose their jobs.
- 2) Contractors cannot perform as well as "we do" (meaning government employees).
- 3) We don't know how to do cost reviews. Factors used for computations of personnel costs are unfair to government employees. They don't reflect the correct costs.
- 4) Reassignment of military personnel which are now a part of the CITA will cost more than is saved.
- 5) Once a contractor gets the job, no matter how much he raises the price, the job will not be brought back in-house - and he will raise the price.
- 6) The CITA review is just an extra burden added to my normal workload.

Attitudes such as these cannot help but impact on any installation's attempt to implement A-76 making it an uphill battle for actively pursuing the program.

4. CITA Management Personnel

During its first 20 years, the CITA program had been subdued by other, more command appealing programs. Some special attention, however, was attained when the DOD included the CITA program in the "Top Ten Programs for Review" during FY 75. This attention materialized in the form of AAA and Inspector General (IG) reports.

a. Guidance

Installation commanders were provided with the following recommendations to insure an effective installation CITA program.

- 1) Designate the Director of Industrial Operations (DIO) as the program director.
- 2) Designate a full time program manager within the DIO organization and a full time member of the Directorate of Facility Engineers (DFAE) to assist in CITA reviews.
- 3) Appoint functional monitors within each activity reported in the CITA inventory.
- 4) Establish an Ad Hoc Committee under the supervision of the DIO to insure all CITAs reported are reviewed and to assist in preparing accurate work statements and specifications within their functional area of responsibility.
- 5) Conduct an effective recurring CITA training program for functional monitors. (56)

The GAO has been critical of DA's recommended chain of responsibility, particularly where personnel responsible for the implementation of A-76 at an installation have a vested interest in continuing commercial or industrial operations in-house. With regard to policy coordinators being located within the DIO, a GAO report states, "Their objectivity is open to question because the conversion of any activity from government to contract performance, in accordance with the policy, would reduce the scope of the Directorate's operations." (57) The

author's discussions with Army installations indicate that a majority of CITA programs continue to fall under the DIO's control. However, many installations are currently involved in staff studies and reviews to evaluate possible transfer of the CITA responsibility within the command.

b. Lack of CITA Personnel

A serious problem heard from the field concerns the lack of CITA personnel. The requirements established in the revised A-76 demand additional management personnel within the CITA section if the program is to be successfully implemented and all CITAs reviewed by the end of FY 84. In addition to not having enough personnel, those who are on board are not trained with regard to the revised A-76. A two fold task has developed: to train existing personnel, and to hire and train new personnel.

A limited number of additional spaces for CITA management personnel has been granted by the DA, however, no further increases are foreseen prior to FY 82. Some installations have shifted their own personnel resources to increase the CITA staff for the present time period.

DA has shown some concern over the CITA spaces already allocated. The additional spaces were allocated with the intent that they be used solely, full time, for execution of the CITA program. (58) The author's research discovered that CITA personnel were normally staffed in one of two methods. Some installations developed a centralized CITA

management office, all CITA personnel working directly for the CITA manager. Other installations maintained a decentralized CITA shop: a CITA office staffed by the CITA manager and possibly an assistant, with the remainder of the CITA spaces allocated among the various activities within the command which were involved in the CITA review process (e.g., procurement, DFAE, comptroller, CPO, etc.). In the decentralized approach, the author found that personnel occupying the CITA spaces were subject to the demands of their assigned section supervisor and often spent time on "priority" projects for that section which were not related to the CITA program.

c. To Each His Own

There exists no standard staffing guide for CITA management efforts. Equivalent size posts were found to have CITA staffs varying from one to eight personnel. Certainly the post with eight full time personnel devoted to the CITA review process should indeed be making the most progress, and generally this was the finding of the author. Also noteworthy - is that DA officials were unable to state how many personnel were involved Army-wide in the full time management effort of CITA. The allocation of CITA spaces has been left solely to the MACOMs and as is indicated by the wide variance of staff sizes noted above, equity may have been overlooked. In some cases, however, no spaces were asked for and installations were suffering from this failure.

Criticism was heard from DA and the MACOMs' personnel regarding the location of the CITA program. "It is

located too far down in the organization." "It has no clout." Those installations which appear to be making progress in implementation have also raised the CITA organization to the level where some leader, civilian or military, has authority and ability to motivate others to act.

5. Management Efficiency Studies

As discussed in the previous chapter, the in-house cost estimate must be based on the most efficient operation. The responsibility for conducting an efficiency study normally is assigned to the Management Analysis Section of the Comptroller or the Directorate of Resources Management (DRM).

In FY 80, there were some installations interviewed who do not have management analysts and others who question the quality and training of those they do have. As a result, the efficiency studies have not recommended significant changes in operations. This indicates that CITAs are already organized and managed in a most efficient manner. There is concern among installations, MACOMs and DA that this may not be the case and indeed there is room for improving operations but they are not being recognized.

On the other hand, where management efficiency studies have recommended major changes in operation, some of the recommendations have been met with less than whole-hearted acceptance. This is particularly true in those instances where the management analyst conducting the study is perceived as an "outsider" who does not understand what the activity is supposed

to do, and management personnel of the activity feel confident that they have a most efficiently run operation. An example to illustrate the point may be helpful.

A management study was conducted within the vehicle maintenance operation. The study revealed that a "double" supervisory level existed which provided little value to accomplishing the mission. Some six chief mechanics were responsible for five workers each. These chief mechanics, as viewed by the management analysts, simply relayed instructions from the maintenance foreman to the workers and reported back on their accomplishments of assigned tasks. Each foreman was responsible for three chief mechanics and their teams. The question became: How many men can be effectively supervised? The study team conclusion was that a foreman could adequately control 15 workers and recommended such a change in the organizational structure. The recommended change was rebutted by the Maintenance Chief who viewed his operation to be efficiently run as is, and that no change would make it more efficient, only less so.

When there is disagreement, deciding whose advice to take is a tough decision that a manager must make. This is not the CITA manager's responsibility, but the job of preparing the cost estimate is dependent on this question first being resolved.

6. Statement of Work (SOW)

The preparation of the SOW is a critical step in the CITA review process. It is a prerequisite to both the preparation of the in-house cost estimate and solicitation by procure-

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ment for prospective contractors. As a technical annex to the future contract, the performance SOW must address three essential elements. First, it must state the specific services required and do so in terms of outputs. In so doing, it must define the process, the objectives, and the interface to which the activity, or activities as the case may be, is subjected. Second, standards, as well as acceptable quality levels, must be set. Performance indicators in the terms of outputs must be identified and explicitly stated. Finally, the SOW must set forth a performance measurement system, a surveillance or quality assurance plan to measure how well the required standards are being met with appropriate penalty clauses for those instances where performance is below the acceptable quality level. The provisions set forth in the SOW must not only be met by the contractor if the decision is to contract-out, but if the decision is for in-house operations, the government too must meet these same provisions. In other words, the government must live up to the standards it demands of contractors.

a. Writing the SOWs

The writers of the SOWs have an important job. They must compose a clear and concise SOW which will enable a precise interpretation of the document by all parties concerned; i.e., contractors, purchasing contractor officers, quality assurance inspectors, functional managers and staffs, etc. Every installation contacted by the author indicated problems in developing adequate SOW's.

A DOD official who is involved with the DOD CITA's program, attributes the Army's lack of progress in accomplishing its FY 80 CITA reviews to the fact that each command is trying to develop its own SOW. He goes on to explain that many SOWs have already been prepared, particularly by the Air Force, and that they should apply to the Army just as well as they do to its sister service. However, he also noted that all services were reluctant to use what someone else had developed.

Army installations have been provided selected SOWs by DA and their respective MACOMs. Some of these have been of assistance to the writer of the SOW at the installation, yet more often than not, the SOWs provided required major modification. As explained by one CITA manager, "We took the SOWs provided by our MACOM, applied them directly to our activities under review and submitted them back to the MACOM for approval." Every one was returned for major rewrite. At still another installation, SOWs were prepared for eight activities only to be rejected by the installation's procurement section. Statements such as these lead one to question how well the model SOWs addressed requirements, standards and surveillance which are essential elements.

b. SOW Responsibility

DA Circular 235-1 states that the functional managers are responsible for writing the SOW applicable to their activity. Interviews indicate that their experience in this

area is almost nil. Functional managers are involved in the day to day operations, particularly the "how to" aspects of their activities. The SOW must state the requirements in terms of "what-to-do". How the contractor chooses to do the task is irrelevant as long as it meets the required standards and established quality levels.

In addition to properly stating the requirements there also exists a problem in developing standards. It is not uncommon to find that present CITA operations have no set standards. Where standards do exist, the DIO has limited control over penalties that can be imposed on government run operations. Control basically boils down to relieving current personnel and bringing in new.

The ability to write a good surveillance plan is also a new experience for most functional managers according to instructors of the Defense Specification Management Course (DSMC) taught by the Army Logistic and Management Center (ALMC), Fort Lee, Virginia. The plan's standards and quality levels must be applicable to both contract or in-house operations. If the surveillance plan calls for a penalty to be assessed against a contractor for failure to meet some particular aspect outlined in the SOW, that penalty must be such that it could be applied to the government if in-house operations failed to accomplish the stated requirement. The DSMC instructors state that the ability to write penalty clauses applicable to both a contractor and to the government, if an in-house operation, requires talents and abilities which have yet to be

developed at all DA installations. The DSMC, as discussed in Chapter III, is an attempt to train functional managers in writing SOWs. To date only three courses have been offered to a minimal number of functional managers.

7. Full Costing

As was the case with writing SOWs, the Army does not have experience at calculating the full cost estimates required by the revised A-76. The former A-76 primarily addressed incremental costing. Under this method, a number of cost factors such as all government sunk costs and some overhead costs are ignored. Only the additional expenses directly related to performance of the function under review are included in the in-house performance. (59) The full cost method was therefore adopted to put the government and the private contractor on more equal positions with respect to obtaining a contract for a particular CITA. The full cost method is an attempt to quantify all costs directly incurred by the government in performing a CITA. The preparation of the in-house cost estimate under the full cost method has been and still is a problem facing DA installations in CITA reviews during FY 80.

a. Adapting

Full costing, as addressed in Chapter III, considers both direct and indirect costs. There has been no standard policy as to how to conduct full costing. Each installation has interpreted A-76 and the CCH in its own fashion, particularly in regard to indirect costs and establishing overhead pools. The responsibility for ensuring that the approach

taken by an installation was appropriate has been delegated to the AAA. Problems have occurred. Disagreements between installation cost analysts and AAA appear for the most part to be resolved in the AAA's favor. The fact that all auditors on the AAA staff are trained accountants give them an absolute edge over the installations who possess limited personnel in CITA positions with accounting experience.

b. Automation

The Army's existing automated financial data system, the Standard Finance System (STANFINS), does not address all elements of cost (EOC) as outlined in A-76. While some do parallel EOC's in STANFINS others do not, e.g., depreciation (with its associated acquisition costs, residual value, and estimated useful life), insurance costs, and costs of capital. Along the same line, at the installations the existing systems do not always accumulate costs by function or activity. The computer print-outs are of little value and costs generally have to be computed manually, a time consuming process.

A big problem exists in the supply and equipment area. The CCH calls for a line by line list of the direct materials to be costed. Direct material costs are those incurred for such goods as raw materials, parts, subassemblies, components, and supplies that are identifiable specifically for use in producing the product or performing the service for which costs are being estimated. (60). In a large CITA, the number of these items to be costed can be quite voluminous and the task extensively time consuming without the aid of a

computer.

Another problem deals with costing labor, both direct and indirect. DA's approach is to cost out the Table of Distribution and Allowance (TDA) which is authorized whether the personnel are on-hand or not. Again this method is a time consuming, line by line approach. Also, in computing labor costs, consideration must be given to personnel who are in a temporary hire status but who are needed full time to accomplish the CITA's assigned tasks. Additionally, borrowed military labor must be identified and the associated costs of these personnel added to the in-house estimate.

c. Depreciation

A major problem are has been in the computation of depreciation. All capital assets which have a value of \$1000 or more must be depreciated. (For FY 81 it appears that value will be lowered to \$300). Capital assets include equipment listed in the Table of Organization and Equipment (TO&E). TO&E equipment is that equipment assigned to tactical units consisting of such things as howitzers, communications systems, vehicles, tanks, radios, generators, missiles, etc. Depreciation is to be computed by the straight line depreciation method using the following formula:

$$\text{Depreciation Expense/year} = \frac{\text{Acquisition Cost} - \text{Residual Value}}{\text{Estimated Useful Life}}$$

Many assets in the Army inventory have outlived their initial estimated useful life. For CITA reviews, the useful life estimate must be modified to at least carry the

asset through the period of the cost study (normally 2 to 5 years). Availability of records containing acquisition cost vary; they are particularly difficult to find for non-engineer items. Additionally, all capital improvements greater than \$1000 must be identified and depreciated. Also difficult to find are residual values, the Defense Property Disposal Headquarters has residual values for items with known Federal Stock Numbers but for older items the residual values are often unknown. Again, this data is not computerized and a time consuming process occurs either in conducting the analysis or developing a computer program for automated processing.

d. The Next Iteration

The author would like to say that once an installation has gone through the process during FY 80 and received AAA's blessing, that subsequent years computations could follow the same format. However, discussion between the author and personnel of the Army Finance and Accounting Center, Fort Benjamin Harrison, Indiana, indicate otherwise. A draft copy of DOD Handbook 4100.33H, Cost Comparison Handbook, apparently has "spelled out" more clearly the "how-to" of computing in-house cost estimates and the various interpretations which installations applied to the full costing method in FY 80 will not be subject to interpretation hereafter, particularly with regard to overhead and General and Administrative (G&A) cost pools. Furthermore, areas which DA considered still to be vague in the DOD Handbook are being addressed by DA. During

FY 81, a concerted effort will be made to get all DA installations conducting cost analysis in a similar fashion.

8. Interface With Planning Programming and Budgeting System (PPBS)

The ultimate decision made in a CITA review is to operate a CITA in-house or through contracted performance. That decision is the key to the budgeting system. If the decision is in-house operation then people must be programmed, if on the other hand, it is to contract-out, then dollars must be programmed. The PPBS system begins its budget formulation almost two years before it is actually implemented. However, it is not known at that time which method of operation will be chosen. Further, start-up and/or one-time conversion costs are unknown. Yet, these impact on the budget year. The problem is one of determining how many dollars to program for contracts and how many people to program for in-house performance. The Training & Doctrine Command (TRADOC) has suggested to its installations that as a means of easing the interface problems, new starts and/or one-time conversion "start dates" coincide with the beginning of the fiscal year, 1 October. This, they believe, will provide additional time for justifying to DA the need for re-programming people and dollars after the CITA review decision has been made.

A potential problem, regardless of start date, should be recognized. This problem deals with the Continuing Resolutions. History reflects that Congress has in recent years done a poor job of approving a budget prior to the start of a fiscal

year. In those cases where a Continuing Resolution is passed, DA has the authority to continue operations as existed in the previous year unless the proposed budget for the year in question is lower than the previous year. In this case, the activity cannot exceed the lower amount budgeted. With regard to conversions and new starts, a Continuing Resolution will not permit DA to spend funds for those activities prior to the budget being approved and signed into law by the President. If substantial delay occurs, as was the case with the FY 80 budget, contractors may desire to recompute their costs or attempt to recover losses incurred for being prepared for a start-up date which was significantly delayed.

9. Government Civilian Personnel

Much could be said about the government civilian personnel interviewee's dislike for the CITA program based on the fear of losing their jobs if the activity for which they work is converted to contract. While attitudes are important, as previously addressed, actions are of equal importance.

a. Job Security

As civilian personnel employed by a CITA perceive the possibility of losing their jobs they begin to look for other areas of employment. Experience indicates that once the review process gets to the solicitation stage, the personnel who could possibly be affected begin to look for new jobs either outside the government or, as more often is the case, seek transfers to some other department which is not being reviewed.

These actions occur prior to any decision being made to go contract. If the personnel levels drop significantly, two unfavorable possibilities may arise. First, if the CITA remains in-house, sufficient numbers of personnel are not on board to do the work. Second, if the CITA is contracted-out, the contractor may be beginning with a larger than normal backlog, at a time when production would probably be reduced due to the changing method of operation.

b. Civil Service Seniority

Another problem which has occurred concerns the seniority rights of civil service employees. Once a RIF is initiated the entire installation may be disrupted as senior civil servants bump those with less seniority. The results may not only be that DA ends up with an older civilian work force, but due to their seniority, a more highly paid workforce.

10. Contracting Officer Representatives (CORs)

The COR is an important person if the CITA review results in contracted operation. He or she is responsible for ensuring that the contractor accomplishes the tasks for which they are being paid. The COR's influence and power rests upon how well the SOW has laid out requirements, standards, and surveillance plan. Prior to February 1979, there was no formal training program for CORs. Since ALMAC has initiated its training program, over 500 personnel DOD wide have received the training; however, school quota requests exceed capability at a ratio of 4 to 1. The need for CORs at the majority of DA installations has been recognized.

a. Criteria

DA guidance, with respect to the CITAs converted to contract, states, "It is imperative that only knowledgeable and technically qualified COR personnel be designated for these positions." (61) Yet there are two problems which tend to impact adversely on the installation choices for CORs. First, there is the protection rights of senior civil service employees. These rights may require that the COR position be filled by someone other than whom management considers to be qualified or most desired. For instance, a choice for the COR of a maintenance operation may be the maintenance chief, however, seniority of a subordinate foreman may give him or her the first choice at the new position. Since the foreman's job is one that is subject to conversion, the foreman will most likely accept an opportunity for continued employment with the government. This individual's abilities to manage and do good work have been reflected in efficiency reports; he is perfectly qualified for the COR position. Although in reality, this foreman may lack the management skills and the knowledge required to successfully manage at a higher level position, and, particularly, be able to deal with a civilian contractor.

b. Authorized Grade Structure

A second problem in filling the COR positions with qualified personnel concerns the General Service (GS) rating authorized for those positions. Discussions with DA installations and with instructors of the ALMC COR training course report that a large number of COR graded positions have been

established considerably below that which was authorized for the former functional managers when the CITA was performed in-house. The importance of this reduced grade structure is recognized when installations attempt to fill the COR positions with those former functional managers who are believed to be the most qualified for such a job. However, these former functional managers are often unwilling to accept a reduction in grade. For example, when a Laundry Superintendent, typically a GS 11 to GS 13, is offered a COR position with a rating of GS 7 to GS 9, he or she is reluctant to accept such a reduction.

C. APPROACHES CHOSEN FOR IMPLEMENTATION

DA's approach at implementing A-76 has been to provide the field with the necessary guidance as to what needs to be done and to monitor progress through more detailed CITA Inventory Reports and AAA assistance visits. Each MACOM, and essentially each installation, has the responsibility to structure its CITA management section as it sees fit. As previously noted, there has been neither a standard approach nor a standard CITA management staff established. At the MACOM level, CITA responsibility can be found to belong to either the Chief of Staff (COS), the Comptroller, or the Deputy Chief of Staff for Logistics (DCSLOG). At the installation level it is just as diverse, located under either the COS, DIO, and the Comptroller. Further, installations have also taken multiple approaches to their CITA structure. Some have a consolidated staff and centralized control while others are more decentralized with

CITA spaces located throughout the command. In the next few paragraphs, a brief discussion of how some typical Army posts have organized their CITA program will be discussed. Specific reference to the post by name will be omitted because of the proprietary information involved.

1. Fort Alpha

Fort Alpha's CITA management team is located within the DIO. A staff study is currently underway to determine if and where the responsibility for the CITA program should be moved. The CITA staff consists of a CITA manager and an assistant. For FY 80, 8 activities have been scheduled for review, two of the activities have been grouped for one operation.

Post Alpha has experienced two major problems during its implementation efforts. First, all seven SOWs that were initially prepared, were returned for major re-write. To help improve the second effort, an Air Force Officer with previous experience in writing SOWs was invited to conduct a class for the installation's personnel needing such training. The re-writes are now being completed. Second, the responsibility for the management efficiency study had been assigned to the Management Analysis section of the Comptroller's Office. Currently, there is no one assigned to that section and no qualified personnel to complete the study. Without this efficiency study the CITA review is on hold (and the author must note that once such a study is completed the SOWs may require a third re-write to comply with any recommended changes).

When Post Alpha reaches the milestone of preparing the in-house cost estimate, the Comptroller's budget shop will assist.

The CITA manager of Post Alpha is very pessimistic about completing even one scheduled review for FY 80. The MACOM to which it is assigned considers it to be dragging its feet. The post commanders and staffs have traditionally been known to emphasize military readiness.

2. Fort Bravo

Fort Bravo's CITA program is also the responsibility of the DIO. It has 9 civilian spaces authorized for CITA: one GS 11 (the CITA manager), five GS-9's, two GS-7's, and one GS-4. Until recently, these spaces were scattered throughout the organization. Some belonged to DFAE, others to personnel, procurement and the comptroller. In February 1980, they were consolidated under the direct control of the CITA manager. The consolidation, as explained by the CITA manager, was due to the fact that nothing was getting accomplished. The CITA personnel, when decentralized, spent the majority of their time working on projects for their functional supervisor. These projects were, more often than not, non CITA related.

Within six weeks of consolidation, which included 20 to 25 hours of overtime per week, the CITA program appeared to be making headway. The SOWs were completed and awaiting approval by their MACOM. The CITA manager was confident that the SOW not only reflected explicit requirements but also des-

cribed a good, workable surveillance plan. Additionally, progress on the in-house cost estimates had been made and initial approval on some areas of the report by AAA had been received.

Barring no major delays by the AAA and more importantly none by appeals from either government personnel or contractors, it appears that 5 of the 6 CITAs scheduled for review will be completed.

3. Fort Charlie

Fort Charlie transferred the CITA program from the DIO to the Comptroller effective 1 January 1980. Only a minimum of effort had been exerted toward meeting the FY 80 CITA schedule at that time. At the time of transfer, seven CITA spaces were authorized, all to be centrally located under the CITA manager (GS-12) control. The CITA personnel were divided into two teams, each headed by a GS-11. These teams were to use inputs from the functional manager to develop the SOWs and then to perform the cost analysis of in-house operation. The management efficiency study was assigned to the Management Analysis section, also located within the Comptroller's office.

By March 1980, personnel to fill the CITA slots had been brought on board. They had to be trained in the CITA program and in their particular responsibilities. After a slow start, progress is now being made. Completing all scheduled reviews by the close of FY 80 is doubtful, but most will be well on their way.

4. Fort Delta

Fort Delta's CITA program structure is decentralized. The CITA manager has argued for centralization under her control but has lost out so far as staff elements have been able to convince the COS to leave them under their control. There are six CITA spaces: The CITA manager and assistant located in the DIO, and one each in DFAE, DRM, Procurement and Personnel.

An Ad Hoc Committee consisting of two management analysts from DRM, the CITA manager, and representatives of the functions scheduled for review was established to develop the SOWs. A major problem has been lack of experience in writing SOWs. The AAA has given its blessing to one in-house cost estimate, however, the SOW for that CITA must be re-written.

Progress toward meeting the FY 80 schedule is being made, however, even the most optimistic outlook does not foresee all the reviews being completed. The MACOM to which Fort Delta is assigned is pleased with its progress and feels it to be a leader in implementation. Although unpopular even among the command elements, the effort to implement A-76 is meeting with some success.

5. Fort Echo

Fort Echo's CITA program is undergoing change. The program is the responsibility of the DIO. Currently there are three spaces authorized for CITA. One is the CITA manager (GS-11) who has been in the job for a number of years and is

scheduled for retirement in June. An assistant CITA manager's space was authorized two months ago but has not been able to be filled. A third space, authorized at the same time, has been filled and is located in the procurement section. That space, as described by DIO personnel, was to help fill a void which existed in the procurement section. On 1 May 1980, a reorganization and restructuring of the CITA program was begun. First, the CITA program manager's position was re-structured to report directly to the DIO; simultaneously, the grade was upgraded from a GS-11 to a GS-12. Second, the DRM was assigned full responsibility for conducting in-house cost estimates.

The FY 80 review schedule consists of 7 CITA, two of which are to be combined in one package. The request to combine these two functions as one study was submitted through the MACOM to DA in August 1979. DA approval was not received until February 1980. The SOWs for the CITAs have been written but have yet to be approved. However, no management efficiency studies were conducted prior to their completion, and these may have to be re-written. The SOW relating to the combined CITAs has already been returned as it addressed the wrong two functions.

The DIO has grave doubts about the progress Fort Echo has made. In February a MACOM Assistant Team had given the DIO an assist visit/inspection. The CITA program was reviewed. No unfavorable comments were made or recorded. The CITA manager indicated that the inspector only scanned his inventory

and asked for his FY 80 schedule. Progress on that schedule was not a major area of interest. It was through his attendance at a Management of the DOD Commercial/Industrial Type Activities Course in April 1980 that the DIO became aware of the complexity of the CITA program and the impact reduced personnel ceiling would have on his organization at year-end. Although steps are apparently being made in the right direction, Fort Echo appears to have a long way to go and completing even one review scheduled for this fiscal year is doubtful.

D. SUMMARY

This chapter has presented a brief picture of the FY 80 attempt to implement A-76 and the CITA program by DA and its various installations. Numerous problem areas have arisen, some of which have been solved but most of which still plague every installation involved in CITA reviews. Major attitude barriers must be overcome. Personnel must be trained in all aspects of the review process, from writing SOWs and conducting cost estimates to CORs monitoring contractors doing government work. The important resources of manpower and dollars cannot be overlooked and planning and coordination among all staff elements are essential to success.

Various CITA program structures have been chosen by DA installations in an attempt to effectively provide direction and accomplish CITA reviews scheduled for this fiscal year. They have met with varying degrees of success. The next chapter will address in length another DA installation which

has almost completed a CITA review in accordance with the revised A-76 and how it went about that task.

ENCLOSURE IV-1

MAJOR PROBLEMS IDENTIFIED WITH CITA REVIEWS
AND A-76 IMPLEMENTATION IN FY 80

PLANNING (OR LACK THEREOF)

PERSONNEL CEILINGS (A STIMULUS TO IMPLEMENTATION)

ATTITUDES AND BELIEFS (MILITARY AND CIVILIAN, TOP TO BOTTOM)

CITA MANAGEMENT PERSONNEL (TOO FEW, UNTRAINED)

MANAGEMENT EFFICIENCY STUDIES (CAN EFFICIENCY BE RECOGNIZED)

STATEMENT OF WORKS (NO STANDARD, SHORTAGE OF EXPERIENCED
WRITERS)

FULL COSTING (WHAT ELEMENTS ARE ESSENTIAL TO DETERMINE
FULL DA COST?)

INTERFACE WITH PLANNING, PROGRAMMING AND BUDGETING SYSTEM
(DOLLARS AND MANYEARS, CRITICAL RESOURCES TO BOTH PPBS
AND CITA OPERATIONS)

GOVERNMENT CIVILIAN PERSONNEL (JOB SECURITY AND SENIORITY)

CONTRACTING OFFICER REPRESENTATIVES (QUALIFICATIONS AND
AUTHORIZED GRADES)

V. FORT GORDON - A PILOT STUDY

Fort Gordon, Georgia offers a picture of the Commercial and Industrial Type Activities (CITA) program. Since 1974, it has been involved in a CITA review which, as of this writing, remains in abeyance. This chapter, will briefly trace the history of the review, indicating the bumpy road over which the CITA program has trod. New challenges continue to arise as efforts to implement the Office of Management and Budget (OMB) Circular No. A-76 (A-76) proceed.

Fort Gordon is a United States Army Training and Doctrine Command (TRADOC) installation consisting of two major units, the Army Signal Center and the Dwight David Eisenhower Army Medical Center. The installation's principal mission is related to the former as it serves as the major Army training post for enlisted and officer personnel in the fields of communications and electronics. The installation provides training for enlisted personnel in basic military training followed by advanced individual training in Signal Corps military occupational specialties. The Signal Officers Basic Course is taught for all newly assigned Signal Officers. Additionally, Fort Gordon offers advanced training for non-commissioned officers (NCOs), warrant officers (WOs), and commissioned officers as they progress in their military careers. To aid in the support of the training mission, two Forces Command (FORSCOM) units the 467th and 327th Signal Battalions are assigned

to Fort Gordon.

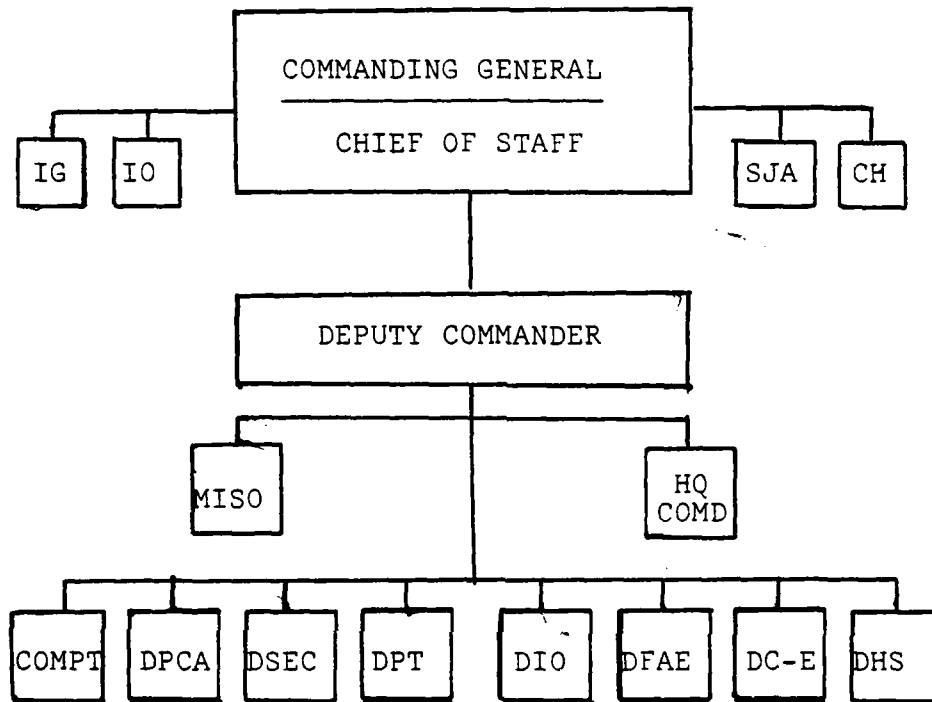
The organizational structure of the command is outlined in Exhibit V-1. Fort Gordon supports approximately 19,000 active military personnel and an equivalent number of military dependents. The CITA review impacts on approximately 500 of those military positions and over 600, roughly 25%, of the authorized civilian workforce.

A. BACKGROUND

In 1973, the Boeing Company offered to contract for a package of CITAs at several Department of the Army (DA) installations. One of those installations was Fort Jackson, South Carolina. A year later, DA chose to replace Fort Jackson with Fort Gordon. Thus, in 1974, Fort Gordon embarked on a task to determine if its CITAs should be conducted in-house or through contract.

In July 1976, the OMB outlined Presidential Management Initiatives to be taken by Federal agencies. One of those initiatives concerned actions to further the objective of maximum reliance on the private sector for commercial and industrial products and services in accordance with A-76. A specific requirement outlined in the OMB letter was that each Federal agency, of which Department of Defense (DOD) was one, submit within a month the initial plans for increasing their reliance on the private sector to carry out overhead or program functions in accordance with A-76. In August 1976, DOD provided OMB a list of five functions or activities which

TRAINING CENTER INSTALLATION STRUCTURE



IG	Inspector General
IO	Information Officer
SJA	Staff Judge Advocate
CH	Chaplain
MISO	Management Information Systems Office
HQ COMD	Headquarter Commandant
Compt	Comptroller
DPCA	Director of Personnel & Community Activities
DSEC	Director of Security
DPT	Director of Plans & Training
DIO	Director of Industrial Operation
DFAE	Director of Facilities Engineering
DC-E	Director of Communication & Electronics
DHS	Director of Health Services

SOURCE: UNITED STATES ARMY SIGNAL SCHOOL, FORT GORDON,
GEORGIA, HANDBOOK FOR INSTALLATION COMMANDERS,
JANUARY 1978

Exhibit V-1

would be considered for increasing its reliance on the private sector. The base operation support functions at Fort Gordon were among the five functions submitted by DOD.

Additionally the Fort Gordon CITA review was designated by DA as a pilot test in the use of the umbrella-type contract. Such a contract requires a single contractor to perform the maximum number of functions possible on the installation. The Fort Gordon umbrella includes 19 activities as depicted in Exhibit V-2. With the exception of Procurement, all CITAs under the control of the Directorate of Industrial Operations (DIO) are included as well as Family Housing which at Fort Gordon is the responsibility of the Directorate of Facility Engineering.

Concern over the impact of the umbrella-type contract on small businesses led the Small Business Administration (SBA) to recommend that the planned umbrella contract be divided into smaller contracts as small business set-asides. The recommendation was rejected and the SBA appealed to the Secretary of the Army (SA). However, the pilot test came to an abrupt end as Congress placed a moratorium on CITA conversions during fiscal year 1978 (FY 78). The SA was afforded the opportunity to forego establishing any precedence by responding to the SBA appeal.

The FY 78 moratorium took effect on 13 July 1977 prior to the beginning of the fiscal year. This date was only two days from Fort Gordon's planned date of placing the solicitation

EXHIBIT V-2

FORT GORDON'S CITA UMBREALLA PACKAGE

AIRCRAFT AVIONICS MAINTENANCE

ARMAMENT EQUIPMENT MAINTENANCE

COMMUNICATION AND ELECTRONICS MAINTENANCE

COMMUNICATION SECURITY (COMSEC) MAINTENANCE

CONTAINER MAINTENANCE (TEXTILES, TENTS, TARPAULINS)

FOOD SERVICES PROGRAM (LESS COMMISSARY RETAIL)

FURNITURE REPAIR

HOUSING OPERATIONS (FAMILY HOUSING)

INSTALLATION BUS OPERATIONS

LAUNDRY AND DRY CLEANING SERVICES

METAL WORKING

MOTOR VEHICLE MAINTENANCE

MOTOR VEHICLE OPERATIONS

NON-COMBAT VEHICLE MAINTENANCE

OFFICE MACHINE EQUIPMENT MAINTENANCE

SPECIAL PURPOSE EQUIPMENT MAINTENANCE

SUPPLY OPERATIONS (SELF SERVICE, CLOTHING SALES, AMMUNITION,
AND MATERIAL MANAGEMENT)

TRANSPORTATION MOVEMENT

TROOP ISSUE OPERATIONS

SOURCE: FORT GORDON CITA MANAGEMENT OFFICE

on the public market. All the work that had gone into the CITA review was placed in a hold position pending OMB and Congressional review of DOD's CITA program.

In FY 79, the moratorium placed on the CITA program was lifted and Fort Gordon was still designated as a pilot project for umbrella-type contracts. A major change had occurred during the moratorium period; a new A-76 had been drafted. Fort Gordon was also designated to be the pilot project of a CITA review conducted under the new rules and costing procedures of the revised A-76.

B. ONCE AGAIN A CITA REVIEW

The Fort Gordon CITA office is located under the control of the DIO. The CITA manager once again was given the marching order to put together a team to conduct a CITA review in accordance with the soon to be published revised A-76.

1. The CITA Management Team

The CITA manager (GS-12) has been described by those who know him as a "go getter". He had previous experience outside the government in the accounting field and has been employed by companies who contracted for government work. He is a rare entity in that his experience in the private sector enables him to understand some of the thought processes of the private sector entrepreneurs.

In addition to the CITA manager, several others were hired. These included two management analysts, one with an

accounting background; a word processing specialist, to be used and trained as a systems analyst; and a management assistant. The Interservice Support Coordinator, who is responsible for coordinating support between Fort Gordon and other DOD activities, also provided assistance. The Comptroller's Office was tasked to provide a full time Budget Analyst to assist in preparing the cost comparison. The Budget Analyst held a degree in accounting and had 13 years of experience in accounting and budgeting.

2. Lack of Published Guidance

The immediate problem which faced the CITA team was the lack of published guidance. As previously noted, OMB, particularly the Office of Federal Procurement Policy (OFPP), was in the process of developing a revised A-76. The CITA management team was instructed to follow the draft A-76 which had been published in the Federal Register in August 1978. Questions submitted by the CITA team to their major command, the Training and Doctrine Command (TRADOC), and to DA were often unanswerable. No one knew exactly how to interpret the revised A-76 particularly in regard to full costing, a major change over the incremental costing method previously required by A-76.

3. Statement of Works (SOWs)

Responsibility for developing the SOWs for the CITAs to be reviewed was delegated to the Procurement Section of the DIO. During the previous CITA review attempt in 1976-77, an

ad hoc committee representing procurement, the CITA office and the functional activities was formed to develop the SOWs. A similar approach was to be taken. Changes in both requirements and operations dictated that new SOWs be developed.

Personnel employed by the CITA under review and the Federal employee's labor union were invited to provide input to the SOWs. The local union, as such, did not respond but a few members of the CITAs provided input and some key suggestions which were incorporated into the completed SOWs.

An important figure in the SOW development was the procurement representative. Much of the work that went into developing and writing the SOWs was done solely by him. The importance of the SOWs developed can be recognized in that if the decision was to remain in-house, the revised A-76 required the government to meet all the conditions spelled out there-in; what was fair to the contractor would also be fair for "Uncle Sam".

4. Cost Comparisons

As noted, the full costing method was to be used for comparing in-house cost estimates to those of private contractors. The first problem that arose was that full costing had not been done before, either in DA or DOD. There was no one to turn to for the "this is how we did it" information which can often be of value.

In December 1978, the CITA team, primarily the CITA manager and the Budget Analyst, began preparing the in-house

cost estimate. The only published guidance, as previously noted, was the draft A-76 as printed in the Federal Register.

a. Getting Started

Although the Fort Gordon CITA team was endowed with more accounting oriented members than the majority of its counterparts at other DA installations, the new focus on full costing provided a real challenge. The installation's financial system provided little information in a format that could be used by the team. A great deal of the work in gathering cost data had to be done manually; a process which proved to be very time consuming. Direct costs were somewhat easier to accumulate than indirect costs. Direct Labor, however, required that the approximately 500 military personnel positions involved in the CITA package be transformed to civilian spaces and costed as such. A one-for-one conversion, civilian for military, was not chosen because military personnel's training requirements generally mean they spend fewer productive hours doing CITA work than does a civilian assigned the same task. The importance of computing and costing an applicable number was critical because if the decision would be to remain in-house then only that number of civilians would be authorized and the military personnel would have to be displaced. So if too few personnel spaces were allocated there would not be enough workers authorized to accomplish the assigned tasks, and if too many were costed, the in-house cost estimate would be unnecessarily inflated.

b. Trial and Error

Indirect cost, as noted, posed the more complicated problems. First, the CITA team had to identify the work centers involved in support of the CITAs. The method chosen to accomplish such a task was to examine organizational charts and attempt to determine who supports whom and what relationship existed between the CITAs and all the other activities located on the installation. The problem was how to develop a basis for material and operational overhead and general and administrative (G&A) pools. As the budget analyst explained, it was through much trial and error. As the pools were being established, new thoughts and stimulating questions would arise which led to adding and sometimes deleting items in the pools. To complicate the problem further, on 29 March 1979, the final version of the revised A-76 appeared and it provided some changes to the instructions found in the Federal Register's copy of the draft. Luckily, it did not mean the CITA team had to go back to square one and start again, but it did require some changes and took additional time.

c. Depreciation

Computing depreciation of capital assets posed some special problems. Three elements are required for computing depreciation: acquisition value, residual value and estimated useful life. The acquisition value was available for approximately 95% of those assets whose records were maintained by DFAE, however, for those items whose records were maintained

by other activities only 60% could be found. Residual values for some items were available from the local Property Disposal Office and others were obtained from the Defense Property Disposal Headquarters. Residual values, however, were not found for all items. The third element, the estimated useful life, posed another problem. Several of the capital assets identified had outlived their intended life expectancy. For these, new life estimates had to be determined.

d. Computer Programs

Computation of the in-house cost estimate was virtually a manual process, this included gathering the information and cost data and computing the results. Fort Gordon, however, was able to use some existing computer programs and develop others which assisted this "stubby-pencil, hand-held calculator" routine.

Materials which are supplied by other government agencies such as the General Services Administration (GSA) and Defense Logistic Agency (DLA) are purchased at a below full cost rate. In completing the cost comparison form the full cost of these items must be recognized and adjusted by a factor established by OMB. A systems analyst was able to develop a program to update these purchase costs to reflect their full cost.

DFAE also was able to assist in providing computerized data. A computer program was used to furnish maintenance and repair costs, another to provide the cost of utilities.

Personnel from DFAE also developed a program to assist in the computation of the cost of capital, that is the government's opportunity costs for having its money tied up in capital that could have been used for some other purpose. In order to estimate the cost of capital, it is necessary to determine the net book value, acquisition cost plus capital improvements less accumulated depreciation, of each tangible asset related to the CITA. The cost of capital is then determined by applying an opportunity cost rate of 10% to the net book value. A computer run was able to provide the net book value, which was called current value, for a large number of Fort Gordon's tangible assets.

e. Army Audit Agency (AAA)

The AAA plays a major role in the CITA review process. It is tasked to provide an independent audit of the in-house cost estimate and certify as to its currency, accuracy and completeness.

Fort Gordon developed a good relationship with the AAA whose auditors recognized that this was not only a new process for the installation but a new task for them. It was to be a learning period for both units. AAA, however, was not in a position to assist the installation in compiling the in-house estimate and maintain independence in their audit. Fort Gordon's submission of the in-house cost estimate led to numerous questions and concerns by AAA as to how the costs were derived. Supporting documents and an audit trail helped resolve some

differences, yet others required recomputation by the installation. Once the AAA was convinced that the data used was the "best that was available" and that the computations were accurate, the auditors gave their blessing.

f. Another Change

The completed in-house cost estimate was submitted by the CITA team to the Procurement Section on 1 September 1979. On 6 September, a revised estimate was submitted. The revision was due to a change in the proposed pay increases for government personnel during FY 80. The original cost estimate included a 5.5% pay raise for all employees. That figure had been presented for several months by the President and was the expected pay increase for government employees. However, a change occurred which would impact on the in-house cost estimate. First, the General Schedule (GS) workers were to get not a 5.5% pay raise but one slightly more than 7%. Second, the wage grade or blue collar workers would not receive any raise for the period. Since blue collar employees outnumbered white collar employees, the result was a lower in-house cost estimate. So after eight long months with many seven day weeks and 12 hour-days the in-house cost estimate came to rest.

5. Procurement and Contractors

In December of 1978 Fort Gordon issued a solicitation to prospective contractors on the umbrella package of CITAs being reviewed for possible conversion to contract. The Request for Proposal (RFP) was for a 10 month Cost plus Award Fee

contract, with an option to extend for a four year period, a total of 58 months, with a start date scheduled for December 1979. Since this umbrella approach was new and contractors believed it to be a new trend in the way future CITAs would be contracted, over 30 interested contractors appeared on the scene.

From January to 29 May 1979, the Procurement section formally responded to 296 questions submitted by interested contractors. Closing had originally been scheduled for April 1979 but when A-76 was finally published, it required that the in-house cost estimate be completed and audited prior to closing.

a. The Choice

When closing finally came, only five bidders submitted proposals: Global Associates, RCA, Pan American, Bendix Engineering and Planning Research Corporation. On 31 January 1980, their proposals were opened. Decision time had arrived. It is essential to remember that the bids submitted were based on a 10 month contract with a four year option to renew. However, the 10 month time period was no longer valid, it was based on a start date of December 1979 and now the 10 month period was just a hypothetical figure on which costs would be compared.

The in-house cost estimate for the 58 month period was \$209,956,388. Pan Am's proposed bid when added to the government cost of contract operation totaled \$178,007,024. Pan Am's bid was considered the best of the bids presented and

chosen for award with a proposal contract start date of 1 June 1980.

b. Pan Am Proposal

Pan Am's offer for the hypothetical 10 month period was \$14,778,441. It consisted of an estimated manning strength of 1018. Included in this personnel strength were jobs currently held by the 600 civilians and 500 military personnel involved in the CITAs under review and the jobs of 230 contracted dining facility attendants. Pan Am proposed to sub-contract food services to a minority owned company, Gemini Services, and maintenance, communication of electronics, Communication Security (COMSEC), and weapons to Federal Electric.

6. Personnel

As previously discussed, the CITA review affected some 600 civilian and 500 military spaces. In FY 76, when Fort Gordon was involved in its initial CITA review, those personnel spaces associated with the CITAs under review were pulled by DA. They were no longer authorized at Fort Gordon. DA had, however, re-instated those spaces in FY 76 through FY 78. In FY 79, DA did not continue such a practice and TRADOC was forced to reinstate Fort Gordon's personnel spaces from its own authorized year-end strength.

a. The Announcement

The impact of the paperwork drill regarding authorized CITA spaces had had no impact on the personnel occupying those spaces. Following the 31 January 1980 bid opening and

the announcement of the decision to contract, the realization of what had happened took hold. Many employees were amazed that the decision was to contract out. Since that announcement, personnel turmoil has increased, the most pressing of which is filling vacancies during the interium period prior to the contractor's start date.

b. Reduction in Force (RIF)

A major problem facing the Civilian Personnel Officer (CPO) is uncertainty. A start date has yet to be announced. The 1 June start date cannot be met for reasons to be discussed in the following section. A mock-RIF, one which identifies the effect on civilian personnel if the contract were to start today, is of little value because only slight changes in the personnel structure can have a domino effect on the outcome of a RIF action. Until a contract start date is announced, the CPO can do little to prepare for the upcoming RIF.

When the RIF does occur it is estimated that some 1000 civilian personnel transactions will occur. Many of these will be related to Civil Service seniority provisions whereby senior employees with a secondary and tierciary job classification will be able to bump junior employees. An older work force is expected, and it is feared that some of the young and, in some cases, more talented men and women will be displaced.

c. Contract Officer Representatives (CORs)

CORs will serve as liaisons between the government and the contractor, and will be responsible for ensuring the

contractor is meeting the requirements as set forth in the SOWs. They will for the most part be selected from present government employees working in the CITAs. The CPO is responsible for judging which personnel are qualified and determining who will be chosen to fill the COR positions. The Army Logistic Management Center (ALMC) sent a team of instructors from their COR training course to Fort Gordon in 1979 to give an on site instruction to those tentatively identified as future CORs. Concern has arisen over some of those identified to fill these critical jobs. Members of the training team expressed doubts as to whether some of those attending the training were capable of dealing with contractors. The CITA manager expresses a similar concern. The civil service regulations, however, deem that an individual's record establishes the qualifications and the final decision will rest with the CPO.

C. PRESENT SITUATION

A decision has been made or has it. Pan Am was chosen by Fort Gordon as having provided the best and most economical proposal for contracting its CITAs. The revised A-76 provides that decisions can be protested and protests will be reviewed by OMB if a contractor feels treated in an unfair manner. Fort Gordon's CITA review is now in the hands of OMB.

A protest was filed by RCA and at the time of this writing much of the data surrounding the contract decision is of proprietary nature, only minimum information can be released. The essence of the protest, however, is as follows. As noted,

Pan Am bid for the hypothetical 10 month period was \$14,778,441, RCA's \$15,199,107. However, RCA, during negotiations, presented a best and final offer with a ceiling of \$12,950,000 for the 10 month period. Fort Gordon's choice of Pan Am has led RCA to protest that decision to OMB in accordance with the provisions of A-76.

Fort Gordon is presently awaiting OMB's decision with regard to what the next step will be. A 1 June 1980 start date is out of the question and until such a date is established the Fort Gordon CITA pilot study remains in abeyance. Instability in the CITA areas will continue until this is resolved.

VI. CONCLUSIONS AND RECOMMENDATIONS

A. GENERAL

The Commercial and Industrial Type Activities (CITA) program falls within the exclusive jurisdiction of the Executive Branch of the Federal government. Since 1955, its procedures and results have generally been disdained by industry, government employee unions, and those who were responsible for its implementation. In 1977, the Executive and Legislative Branches of the Federal government announced their concern over the present policy; the results of which led to the publication of a revised Office of Management and Budget (OMB) Circular A-76 (A-76) and a Congressionally imposed moratorium on contracting-out CITAs during fiscal year 1978 (FY 78).

On 29 March 1979, a revised A-76 was published establishing a more definitive and systematic approach to implementing the government policy concerning CITAs. The Office of Federal Procurement Policy (OFPP), the sponsor of A-76, changed the emphasis from one of contracting-out to one of gaining the most for the American tax-dollars. Implementation and compliance with A-76 continued to be the responsibility of the Federal agencies. The Department of Defense (DOD) and Department of the Army (DA) have each published revised instructions to comply with the new mandates of A-76. Further, DA, as well as its sister DOD services, has been given a five year suspense to review all CITAs under the provisions of the revised A-76.

This chapter will present the author's conclusions and recommendations based on the research and interviews conducted in the preparation of this thesis.

B. CONCLUSIONS

The author's research indicates that efforts to implement the revised A-76 and particularly to complete the FY 80 CITA review schedule have not been successful. The FY 80 review schedule will not be met and much of the workload will be carried over into FY 81. Several conclusions can be drawn as to why this is the case.

1. The Cart Before The Horse

While the revised guidance and instructions published by OMB, DOD, and DA were considerable improvements over what had previously been published, insufficient time was allowed between the effective and publication dates. A-76 was published on 29 March 1979 with an effective date for DOD of 1 October 1979. However, it was not until February 1980 that either DOD or DA published their implementing guidance. From the very beginning the "cart was before the horse". Instructions, as to what to do, were being sent to DA installations at the time they were supposed to be involved in the CITA review process. Confusion resulted and implementation efforts staggered.

CITA management personnel as well as others involved in the CITA review process, i.e., procurement and comptroller personnel as well as functional managers, were not trained in

the requirements of the revised A-76. This was particularly true in the areas of developing statements of work (SOW) and the full cost method of computing government cost estimates, both essential ingredients in the early stages of the review process. While DA Circular 235-1 is clear in assigning the responsibility for functional managers, this author is concerned over the ability of the functional managers to perform such a task. The research indicated that experience within the DA is essentially non-existent when it comes to writing performance SOWs. Functional managers appear to be engrossed with current operations and concerned with the "how to" of the job and are not particularly adept at writing documents of "what is" to be done in a manner which can be used to hold a contractor accountable for the task.

The research also indicates that in-house experience in conducting full cost estimates was lacking and it has been a difficult task for DA installations. The manner in which installations accumulate and account for elements of cost is not correlated to those elements of cost associated with the CITA program. Computerized accounting data in a format useful to those performing the CITA reviews has not been available. A particularly troublesome area of concern of those interviewed was indirect costs. The development of general and administrative expense and overhead pools has created problems. The Army Logistic and Management Center (ALMC) had established a training course designed to educate those involved in

developing in-house cost estimates in the full costing method, however, it was not begun in time to reach all personnel requiring such training prior to the implementation date. Further, the four and one half day course only covers the very basic elements of full costing as the majority of those attending the course have no accounting background. Course instruction was based on practical exercises with canned data, that is all figures needed for computing government cost were given. Upon returning to their installations, the former students soon discovered that the data required to complete the cost estimate was not readily available and involved much searching of records followed by manual, time consuming computations of government costs.

Finally, as discussed in Chapter V, Fort Gordon was designated as a pilot study to look at the umbrella type contract approach. It also represented DA's initial attempt of computing the government's in-house cost estimate using the full costing method required by the revised A-76. However, DA did not wait for the results of the pilot study before launching a full scale review effort at other DA installations in FY 80. The results have been costly. Each installation essentially "invented its own wheel". The opportunity to learn from the successes and mistakes of others was foregone.

2. Catalyst to Implementation

As noted the Federal government's policy of relying on the private sector for needed products and services dates to

1955. Progress at conducting reviews of in-house operation has been slow. Whether intentional or not, the use of year-end civilian personnel strengths has served as a catalyst to motivate DA installations in conducting CITA reviews. A-76 stresses that Federal agencies are not to contract-out for the purpose of avoiding personnel ceiling or salary limitations. It becomes obvious that as civilian personnel reductions are imposed with no concurrent reduction in workload, decision-makers come to view contracting-out as a viable alternative to meet mission requirements.

The perceived misuse of the CITA program to circumvent the imposed personnel ceiling has created Congressional concern. As discussed in Chapter II, HR 4717, a bill before the House of Representatives, if passed, could be the first legislatively imposed CITA policy. The bill basically restates the policy outlined in the revised A-76. It also requires each Federal agency to report every instance of conversion to contract or return to in-house operation to OMB within 10 days. Further, it would require OMB within 30 days to adjust the agencies personnel ceiling based upon the number of employees required to perform the function.

This system would require individual ceiling adjustments with every contract initiated or reviewed, and mean that DOD would have to observe and OMB would have to establish and administer a succession of constantly changing ceilings throughout the year. A new bureaucracy might be needed just to take

care of the monitoring, data collection, notification, and record-keeping. Additionally, if more activities were brought back under in-house operation, there is the potential for conflicts with regard to personnel ceilings. Specifically, conflicts with the Leach Amendment which restricted government personnel ceilings to the 1977 level, and with legislatively mandated limits on total personnel authorizations as in the DOD Appropriation Act. The increased burden of paperwork would tend to further complicate an already complex program and possibly discourage implementation of A-76.

3. CITA Management

DA has not developed a standard manning requirement for the CITA management section of the installation. As discussed in Chapter IV, CITA staffs range from one to eight members with each installation determining its own needs. This appears ironic when the DA has virtually a manning authorization for every Table of Organization and Equipment (TO&E) unit and Table of Distribution and Allowance (TDA) unit in its inventory. The management of such a program as CITA should also deserve some standard of authorized personnel.

Additionally, the structure of the CITA section, either centralized or decentralized, has impacted on the accomplishments in CITA reviews during FY 80. The centralized approach, where all staff members report directly to the CITA managers, apparently helps to focus the work efforts to the project at hand, the CITA review.

4. CITA Inventories

The DA requirement for an annual CITA inventory is not new. However, the amount of detail which it provides has been greatly increased. The annual CITA inventory reports, in the author's opinion, will become a report card by which major Army Command (MACOMs) and installations are assessed in their implementation effort of A-76. Failure to conduct reviews will become evident throughout the chain of command and managers should find the CITA inventory to be a useful tool in directing support to those commands requiring the most attention.

C. RECOMMENDATIONS

The following recommendations are offered as improvements to the CITA review process as it relates to A-76 and DA installations' attempt to implement that policy.

1. Lessons Learned

A concerted effort by DA and the MACOMs should be made to share the experiences, failures and successes, of DA installations conducting CITA reviews. There is no reason for each installation to continue "re-inventing the wheel" when others have already done so and can provide a workable method for reviewing the CITA and completing the government cost estimate. Results of the Fort Gordon pilot study should be evaluated and where applicable, appropriate changes made. If the umbrella type contract is found to provide greater savings through economies of scale, then future CITA reviews should be based on that concept whenever possible.

Further, installations which successfully complete CITA reviews should be identified and other installations notified of that success. Both formal and informal exchange of information between installations and MACOMs should be encouraged. Additionally, those installations which are not making sufficient progress should also be identified and MACOMs should ensure that the "blind are not leading the blind" in the review effort.

2. Standard SOWs

After having undergone the first round of SOW development, DA should identify the best SOWs and establish a standard for each DA installation to follow. While DA may have difficulties applying Department of the Air Force and Department of the Navy SOWs to its use, it should not have such a problem within its own service and only minimal changes to a standard SOW may be required. For those CITA which have yet to be reviewed and which SOWs have not been developed, a centralized approach should be taken, putting the experts, possibly including ALMC instructors to work on the tasks. If such a centralized approach cannot be taken, then the SOW course offered by ALMC should be opened to other than just the CITA functional managers. Presently, many procurement personnel and CITA staffs are heavily involved in writing SOWs. They also need to be trained in writing SOWs until such time as a standard SOW can be produced.

3. Responsibility for the CITA Program at Installation Level

Responsibility for the CITA program should, if not already, be shifted from the Directorate of Industrial Operations (DIO). Whether it would occur or not, there exists the possibility for an inherent conflict of interest between the DIO and subordinate CITA activities and workforces which are also responsible to the DIO. The most often heard recommendation from the interviews was for the placement of CITA programs either under the control of the Chief of Staff or the Comptroller. The author recommends responsibility be assigned to the latter. The Comptrollers or some of their staff members are already involved in many facets of the CITA review. They possess the personnel assets that are crucial for its completion. The management efficiency study normally is conducted by management analysts who are part of the Comptroller section. The development of in-house cost estimates, particularly overhead and general and administrative pools, are also within the Comptroller's responsibility. The requirement for interfacing the CITA review with the Planning, Programming and Budgeting System (PPBS) requires essential communications and timing. If both are under unified control, CITA coordination can be better managed. Finally, after the initial learning period, CITA reviews and cost studies should require fewer man-hours and possibly fewer personnel. If the CITA program is under the Comptroller, personnel trained in conducting cost studies could also be employed in other accounting type activities during

slack periods of CITA reviews. Further, assuming a learning curve is developed, the DA is able to computerize CITA cost data, and after all CITAs have been initially reviewed and costed, a portion of the CITA management personnel spaces could be eliminated or combined with other Comptroller activities.

4. The Standard Army Finance System (STANFINS)

An effort should be made to merge the elements of costs related to CITAs to those of STANFINS. The current system with different elements of cost leads to a time consuming process in developing the in-house cost estimate. Further, by having to manually retrieve cost data, the possibility of omitting or miscalculating the appropriate full government cost increases. An accounting system that reflects costs by CITAs and work centers would aid greatly in the preparation of the in-house cost estimate and could reduce the time required to conduct cost estimates significantly.

D. SUMMARY

The emphasis placed on the DA CITA program has increased since the publication of the revised A-76 in March 1979. This thesis has examined the current literature and training associated with the CITA program. Additionally, it has identified key problem areas, various approaches to implementation, and personnel involvement in the CITA review process. Recognition of the problems is a step toward finding workable solutions. The conclusion drawn are based on DA installations' attempt to implement the revised A-76 during FY 80. The recommendations

which were made are those which should help bring about a more successful implementation of the CITA program in a shorter time period.

The problems currently besetting DA installations are not insurmountable. By sharing lessons learned, standardizing SOWs, organizing an effective CITA section, and merging the element of cost related to CITAs with those of STANFINS, DA should be able to successfully complete the mandated CITA reviews by FY 84.

APPENDIX A

DEFINITIONS AND EXPLANATION OF TERMS

CAPITAL INVESTMENT. Total acquisition cost of Army-owned property. This includes buildings, structures, grounds, utility systems, and equipment, less depreciation, accumulated prior to the cost of each tangible capital asset related to performance.

COMMERCIAL/INDUSTRIAL-TYPE ACTIVITY (CITA). An Army-operated and Army-managed organization, together with its personnel, facilities, and equipment, that provides products or services obtainable by contract from private, commercial sources. A CITA can be identified with an organization or a type of work, but must be separable from other functions to be suitable for performance either in-house or by contract. Further, the CITA must consist of regularly needed work of an operational nature, not a one-time requirement of known and relatively short duration associated with support of a particular project.

CITA INVENTORY. A listing of all commercial and industrial functions, whether performed in-house, by contract, or jointly.

COMPARATIVE COST ANALYSIS. An accurate determination of whether it is more economical to acquire the needed products or services from a private, commercial source or from an existing or proposed DOD CITA, using the procedures in supplement 1 to OMB Cir A-76, DOD 4100.33H, and DA Cir 235-1.

CONVERSION. The transfer of work from a government in-house commercial or industrial operation to performance by a private commercial source under contract.

DISPLACED EMPLOYEE. An employee adversely affected by the conversion to contract. Examples of adverse actions are job elimination, grade reduction, or reassignment to another position. The person need not have been employed in the activity contracted (e.g., he or she could have been involved in a "bumping" action).

EXPANSION. The modernization, replacement, upgrade, or enlargement of an in-house government CITA or Government Owned, Contractor-Operated (GOCO) that involves additional capital investment of \$100,000 or more, or increasing, annual operating costs by \$200,000 or more, from that reported in the current CITA inventory, provided the increase exceeds 20 percent of the total investment or the annual operating cost. A consolidation of two or more functions is not an "expansion" unless the additional

capital investment or annual operating cost exceeds the totals from the individual activities by the amount of the threshold described above.

GOVERNMENTAL FUNCTION. Work that must be performed in house due to a special relationship in performing government responsibilities. These responsibilities can fall into several categories.

1. Discretionary application of Government Authority. This category includes investigations, prosecutions, and other judicial functions; management and direction of the Army; selection of program priorities; direction of Federal employees; direction of intelligence and counterintelligence operations. Functions or activities included in this category are contracting, civilian personnel offices, staff judge advocate and other legal advisory activities, criminal investigation activities, inspector general functions, resource management activities, and managerial activities at the level in the organization where decisionmaking will affect program direction.

2. Monetary transactions and entitlements. This category includes government benefit programs, tax collection, and revenue disbursements by the government.

IN-HOUSE PERFORMANCE. The performance of CITA by Army military or Federal civilian personnel.

NEW START. The establishment of a new Army CITA of any dollar value, including a transfer of work from contract to in-house performance. Also included is any expansion that would increase capital investment or annual operating cost by 100 percent or more. New start does not apply to interim in-house operation of essential services pending reacquisition of the services prompted by such action as the termination of an existing contract operation. Also not included as new starts are actions required solely to comply with the requirements of the National Environmental Policy Act or the Occupational Safety and Health Act.

PRIVATE COMMERCIAL SOURCE. A private business, university, or other non-Federal activity located in the United States, its territories and possessions, or the Commonwealth of Puerto Rico. This source is able to provide products or services required by the Government. States or State political subdivisions are considered private commercial sources.

REDUCTION-IN-FORCE (RIF). An involuntary reduction of civilian personnel.

REVIEW SCHEDULE. A listing of CITA functions and the fiscal year in which each review will be completed. Each of the functions that make up a multi-function activity or are being performed by contract are separately identified in the review schedule.

ROTATION BASE. Positions in CONUS, modification table of organization and equipment (MTOE), and table of distribution and allowances (TDA) organizations that provide soldiers with meaningful CONUS jobs in their particular skill between overseas tours. CONUS TDA positions protected from conversion to civilian personnel authorizations or contract performance are identified in an annual HQDA letter issued by the Deputy Chief of Staff for Personnel.

SPACE IMBALANCED MILITARY OCCUPATIONAL SPECIALTY (SIMOS). A military occupational specialty (MOS) in which overseas authorizations exceeds 55 percent of the Army-wide total for the MOS. The SIMOS program is described in DA Circular 611-62.

APPENDIX B

LIST OF ORGANIZATIONS, INSTALLATIONS AND COMMANDS VISITED OR CONTACTED

Executive Branch

Office of Federal Procurement Policy

Legislative Branch

House of Representatives Committee on Post Office and
Civil Service

House of Representatives Sub-committee on Human Resources

Department of Defense

Office of the Assistant Secretary of Defense (Manpower,
Reserve Affairs, and Logistics)

Department of the Army

Office of the Director of Management United States Army
Finance and Accounting Center Army Audit Agency (Western
Division)

Major Army Commands

United States Army Training and Doctrine Command (TRADOC)

United States Army Forces Command (FORSCOM)

United States Army Communication Command (USACC)

United States Army Material Development and Readiness
Command (DARCOM)

United States Army Military Traffic Management Command
(MTMC)

Installations

Fort Benjamin Harrison, Indiana

Fort Benning, Georgia

Fort Bliss, Texas
Fort Bragg, North Carolina
Fort Campbell, Kentucky
Fort Gordon, Georgia
Fort Hood, Texas
Fort Huachuca, Arizona
Fort Jackson, South Carolina
Fort Leonard Wood, Missouri
Fort Lewis, Washington
Fort Ord, California
Fort Riley, Kansas
Fort Sheraton, Illinois
Fort Sill, Oklahoma
Presidio of San Francisco, California
Sharpe Army Depot, California
Sierra Army Depot, California
Toole Army Depot, Utah

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